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Publications

MACKENZIE VALLEY PIPELINE INQUIRY

IN THE MATTER OF APPLICATIONS BY EACH OF
(a) CANADIAN ARCTIC GAS PIPELINE LIMITED FOR A
RIGHT-OF-WAY THAT MIGHT BE GRANTED ACROSS
CROWN LANDS WITHIN THE YUKON TERRITORY AND
THE NORTHWEST TERRITORIES, and
(b) FOOTHILLS PIPE LINES LTD. FOR A RIGHT-OF-WAY
THAT MIGHT BE GRANTED ACROSS CROWN LANDS
WITHIN THE NORTHWEST TERRITORIES
FOR THE PURPOSE OF A PROPOSED MACKENZIE VALLEY PIPELINE

and

IN THE MATTER OF THE SOCIAL, ENVIRONMENTAL AND
ECONOMIC IMPACT REGIONALLY OF THE CONSTRUCTION,
OPERATION AND SUBSEQUENT ABANDONMENT OF THE ABOVE
PROPOSED PIPELINE

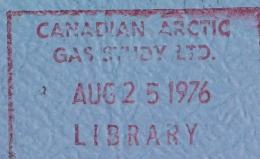
(Before the Honourable Mr. Justice Berger, Commissioner)

Yellowknife, N.W.T.

August 20, 1976.

PROCEEDINGS AT INQUIRY

Volume 174



APPEARANCES:

Mr. Ian G. Scott, Q.C.,
Mr. Stephen T. Goudge,
Mr. Alick Ryder, and
Mr. Ian Roland, for Mackenzie Valley Pipeline
Inquiry;

Mr. Pierre Genest, Q.C.,
Mr. Jack Marshall,
Mr. Darryl Carter, and
Mr. J.T. Steeves, for Canadian Arctic Gas Pipe-
line Limited;

Mr. Reginald Gibbs, Q.C.,
Mr. Alan Hollingworth, and
Mr. John W. Lutes, for Foothills Pipe Lines Ltd.;

Mr. Russell Anthony,
Prof. Alastair Lucas and
Mr. Garth Evans, for Canadian Arctic Resources
Committee;

Mr. Glen W. Bell and
Mr. Gerry Sutton, for Northwest Territories
Indian Brotherhood, and
Metis Association of the
Northwest Territories;

Mr. John Bayly and
Miss Lesley Lane, for Inuit Tapirisat of Canada,
and The Committee for
Original Peoples Entitle-
ment;

Mr. Ron Veale and
Mr. Allen Lueck, for The Council for the Yukon
Indians;

Mr. Carson Templeton, for Environment Protection
Board;

Mr. David H. Searle, Q.C.
for Northwest Territories
Chamber of Commerce;

Mr. Murray Sigler and
Mr. David Reesor, for The Association of Muni-
cipalities;

Mr. John Ballem, Q.C., for Producer Companies (Imperial,
Shell & Gulf);

Mrs. Joanne MacQuarrie, for Mental Health Association
of the Northwest Territor-
ies.

CANADIAN ARCTIC
GAS STUDY LTD.

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Frank J. DUSEL

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Lainsbury, Dusel, Dalby
In Chief

YELLOWKNIFE, N.W.T.

August 20, 1976

(PROCEEDINGS RESUMED PURSUANT TO ADJOURNMENT)

THE COMMISSIONER: All right,
ladies and gentlemen, are we ready to begin?

MR. GOUDGE: I think we
are, sir. We were about, as you recall yesterday,
to commence the cross-examination of this panel.

MR. SIGLER: Before we do so,
sir, Mr. Dusel wanted to correct one small point in
the evidence that he read in yesterday.

THE COMMISSIONER: All right.

JOHN M. LAINSBURY,

FRANK J. DUSEL,

RONALD NORMAN DALBY, resumed:

WITNESS DUSEL: Sir, on
page 14 of the written submission, at the bottom of
the page there is a projection of future requirements
for storage and the text reads:

"Two ½-million gallons storage reservoirs.
It's been brought to my attention that when I read
that I said 2½ million gallon reservoirs. The
correct figure is two ½-million gallon reservoirs.

~~THE COMMISSIONER: Got it.~~

MR. SIGLER: That's the only
point, sir.

MR. GOUDGE: Sir, Mr. Steeves
indicated he had no questions. Mr. Bayly?

MR. BAYLY: I think Mr.

Lainsbury, Dusel, Dalby
Cross-Exam by Mr. Steeves

1 Hollingworth has questions.

2 MR. GOUDGE: Mr. Hollingworth,
3 do you have any questions?

4 MR. HOLLINGWORTH: I under-
5 stood Mr. Bayly was proceeding.

6 MR. GOUDGE: Would you be
7 prepared to go first, Mr. Bayly?

8 MR. BAYLY: O.K.

9 MR. STEEVES: Mr. Commissioner,
10 I changed my mind overnight.

11 MR. GOUDGE: I knew that
12 would happen.

13 MR. STEEVES: Am I allowed to
14 do so? I have a couple of questions I'd like to
15 address to Mr. Dalby, if I could.

16
17 CROSS-EXAMINATION BY MR. STEEVES:

18 Q Mr. Dalby, I understand
19 that your study which is reflected in the evidence
20 which you gave yesterday, was done some time ago.

21 WITNESS DALBY: The work that
22 you're referring to was carried out by Stanley &
23 Associates, oh, well completed in December of 1975
24 and a lot of the work was done prior to that, so
25 it has been some time that the work has been completed.

26 Q Yes, I'm sorry. Perhaps
27 I should agree with you. As I understand it, you
28 were retained as a consultant by Stanley.

29 A That is correct.

30 Q And asked to sort of

Lainsbury, Dusel, Dalby
Cross-Exam by Steeves

1 outline how the study that they were going to make should
2 be done. That was really your role in this.

3 A When I came into the
4 picture, Stanley had already reviewed the Arctic Gas
5 impact, of proposed Arctic Gas Pipeline on energy costs
6 in northern communities, study of September 9, 1974.
7 They asked that I come in and review the work that the
8 had done and at that time I suggested to them that
9 I noticed one item that should be changed and should
10 be reflected before this hearing, this being that the
11 heating load saturation of 50%, in my estimation and
12 from my background, was too low, and that they should
13 do some calculations based on a higher percent satura-
14 tion for heating load. This was done and included
15 in the material that was supplied under Section 4.0 of
16 the Stanley Report.

17 Q And neither you, nor so
18 far as you know, anyone in Stanley, has looked at the
19 Foothills' submission on gas to the communities.

20 A That is correct. The work
21 that was put forward by Stanley, and maybe one of the
22 Stanley representatives could add further if they know
23 something that I don't know in this regard, but the
24 work that was prepared for this report that's dated
25 December, 1975, of Stanley Associates, was based on
26 the Arctic Gas material, this report of September, 1974.

27 Q Now, you made a statement
28 yesterday in evidence, and you said this,

29 "The investigations conducted to date on
30 natural gas service for Northern Canada have

Lainsbury, Dusel, Dalby
Cross-Exam by Steeves

1 really just scratched the surface. Additional
2 work on detailed load surveys, transmission
3 line and distribution system design and engin-
4 eering, natural gas economics and energy
5 cost analysis must be carried out."

6 Do you know from anything you've learned since you
7 worked with Stanley on this study whether or not that
8 has been done or any of that has been done?
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Lainsbury, Dusel, Dalby
Cross-Exam by Steeves

1 A I am not aware of the
2 kind of work being done that I was referring to. To
3 give you some indication of what has happened and
4 why I would make that statement, I can refer to the
5 consumer gas rate in the City of Edmonton. This has
6 increased by 115% since 1974. If you will include
7 the \$70 million rebate that is provided by the Provincial
8 Government as to keep gas rates lower than they would
9 otherwise be natural gas rates in Alberta would
10 have increased by approximately 170% since 1974.

11 Now, the largest element in
12 this is the cost of natural gas -- the field price
13 of natural gas. At the time of September 1974 CAGSL-
14 CAGPL study was completed the field cost of natural
15 gas was significantly below what it is today and if
16 you have a much higher field price of natural gas
17 then you just wouldn't reflect that one element in a
18 study. You would also have to reflect what are the
19 increased costs of building the pipeline, the transmission
20 line, what are the increased costs of distribution
21 in the communities.

22 But with the factor of increase
23 in the price of -- the field price of natural gas,
24 it would appear that the economics of service for these
25 communities and the economic benefits -- overall
26 economic benefits to the north will increase as a
27 result of the higher field prices for natural gas
28 because it is not the producer that is receiving the
29 lion's share of the higher field prices in Alberta.
30 It is the governments that are taking the added costs of

Lainsbury, Dusel, Dalby
Cross-Exam by Steeves

1 natural gas. That's what I was referring to in the
2 statement I made during my presentation yesterday
3 that the benefits to Canadians reflected by the
4 price that you can get for your natural gas in
5 southern Canada less the cost of transmission and less
6 what you have to pay to the producers.

7 Sorry for such a long answer.

8 Q No, it's all right. I
9 understand what you are telling me. Thank you.

10 Now, you also said this
11 that the economics of natural gas service for northern
12 communities is dependent in part on the timing of
13 construction. I take it there you are talking about
14 construction of the mainline and when the distribution^{systems}
15 or laterals and distribution systems are to be
16 constructed.

17 A The longer it takes to
18 build the pipeline, the higher the cost will be for
19 the consumer based on the cost of the transmission
20 line, the cost of the distribution system. In an
21 inflationary time such as we have been experiencing
22 and it appears even with the control measures we will still
23 experience a degree of inflation I am quite confident
24 that the costs of natural gas will be higher with time.
25 That time will make the project and the benefits to
26 the northern communities and to northern Canada less
27 than would otherwise be the case.

28 Q Am I pushing you too far
29 in putting this to you? Are you saying until one
30 knows with much greater certainty than is possible

Lainsbury, Dusel, Dalby
Cross-Exam by Steeves

1 today now, when construction will start, when
2 construction will finish and thus what the cost
3 of construction will be, that it is impossible to do
4 a proper analysis of the economics of distribution to
5 the northern communities?

6 A I would use a few
7 different words.

8 Q You don't like "impossible"?

9 A Well if I am making an
10 investment decision, if I am an investor I would
11 not make an investment decision on the information
12 that is available today. But as I mentioned to the
13 Commissioner that the information that has come forward
14 before him demonstrates that natural gas can be made
15 available to a number of communities in the Mackenzie
16 Valley at a lower cost than competitive fuels. The
17 question of how much that advantage will be is an open
18 question until -- basically until a decision is made
19 as to when the pipeline is to be built. Then I think
20 that you can go forward and make calculations that can
21 set out fairly clearly what the economic benefits will
22 be for the northern communities.

23 Q O.K. Implicit in what
24 you have just said I think is this, that no matter how
25 greatly the cost accelerates, they can never accelerate
26 to the point where gas to all of the northern communities
27 will be uneconomic. Do you understand the question?

28 A If the pipeline say is
29 delayed and during that period of delay you had a
30 high rate of inflation, it is conceivable that the

Lainsbury, Dusel, Dalby
Cross-Exam by Steeves

1 price of gas would be uneconomic for northern communi-
2 ties but that really doesn't follow because the
3 relationship outside remain the same that the cost
4 of natural gas if you are in eastern ^{Canada} -- the cost of
5 competitive energy in eastern Canada would also have
6 to increase on a relative basis. So I think you are
7 right, in spite of the increases in the cost the
8 relative economics will remain essentially the same.
9 That the advance -- we can identify in advance today
10 that even with increased costs, there can be an advant-
11 age but I would suggest that the size of the benefits
12 would be less with time. As the time proceeds, the
13 benefits to northern Canada will be less because more
14 and more of the costs of -- more and more of the
15 revenues would have to be absorbed in pipelining costs
16 and in costs to provide the necessary incentives
17 to producers.

18 THE COMMISSIONER: Well
19 excuse me Mr. Dalby, just so we don't leave the subject
20 of -- it seemed to me there is a tendency for you to
21 blur the whole subject of supplying gas to northern
22 communities with the larger benefits to be derived
23 from pipeline construction taking gas delivery
24 to northern communities, what is your evidence regarding
25 the affect on the feasibility from an economic point
26 of view of delivering gas to northern communities of
27 postponement of construction?

Lainsbury, Dusel, Dalby
Cross-Exam by Steeves

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2 A Higher cost, as I mentioned
3 in my testimony, by virtue of the fact that there has
4 been some front end investment and as you put those into
5 the final investment, those costs become higher with
6 time because there are carrying costs associated with
7 front end investment.

8 Q Okay, now then you
9 said something to Mr. Steeves just now that I didn't
10 quite follow. You said that the comparative costs
11 of natural gas, even given postponement of the pipeline,
12 the comparative costs of natural gas -- delivery of
13 natural gas to northern communities as compared to
14 fuel oil would not substantially be changed. Now, is
15 that what you said? If you didn't --

16 A Let me -- we're looking
17 at the -- say the tail end of the system. That is, how
18 much can southern Canada afford to pay for natural
19 gas. If the world economy follows the same inflation
20 rate, or I should make that different, if the inflation
21 rate on this project follows the inflation rate in the
22 world economy, which will be reflected in higher
23 international prices of energy, then the relationship
24 will remain the same and if there's economic benefits
25 now, they will just remain the same with time.

26 However, if the inflationary
27 costs for northern development in Canada are higher
28 than the world inflation rate, then you can have a
29 situation where the costs of energy in the market to
30 which this gas is going to flow can be increasing at a

Lainsbury, Dusel, Dalby
Cross-Exam by Steeves

1
2 lesser amount than the inflation that we're experiencing
3 on account of this pipeline and when that happens, the
4 economic benefits to the communities will be reduced and
5 the overall economic benefit to northern Canada or
6 to Canada will be reduced.

7 Q Well, hasn't the rate
8 of inflation been moderated over the past year, not
9 only in the world economy, but in the Canadian economy?

10 A Correct, but from what
11 I have read, the inflation rate in Canada and our
12 efficiency in our construction industry is putting us
13 in a worse position vis-a-vis the world economy, that
14 our efficiency in Canada is declining relative, say,
15 to the United States and relative to other parts of
16 Canada. So, we have a trend in Canada of being less
17 efficient and by virtue of this delays will cost Canada
18 or Canadian projects more.

19 Q Okay, one other question
20 and don't think that I am going to try to answer all
21 of these matters that you've raised because, the leading
22 economists in the world, I suppose, are having a great
23 deal of difficulty wrestling with them, but isn't it
24 true that the price of natural gas in Canada and the
25 U.S. has been, by various means, artificially depressed?
26 It hasn't been allowed to rise to its -- to where the
27 forces of supply and demand would have taken it had
28 government not intervened, in ways such as you have
29 just outlined, the Alberta government's subsidy to
30 Alberta consumers, the regulations in the U.S. applying

Lainsbury, Dusel, Dalby
Cross-Exam by Steeves

1
2 to interstate deliveries of gas and so on. Now, isn't
3 there a tendency, I thought there was, for the governments
4 in the U.S. and Canada to allow natural gas to rise to
5 its natural level, if that's the right word to use, and
6 wouldn't that effect the whole equation that you're
7 putting together here?

8 A Yes sir, the point that
9 I was making yesterday with the Alberta gathered delivered
10 price to the export pipeline currently being 95.5 cents
11 that's the price at the Alberta border and the estimate
12 that by January 1st, 1978 this delivered price into
13 export pipelines being \$1.36.

14 Q That's before, yes,
15 that's before the export price is established, I take
16 it?

17 A That is the price that
18 natural gas will command at the Alberta border. Now,
19 this change say, from -- this is on a 1000 B.T.U.
20 per cubic foot basis, this change from 95.5 cents in the
21 current, ^{period} \$1.36 estimated in January 1st, 1978 is a
22 reflection of this trend toward natural gas leading
23 toward world energy pricing.

24 Q Yes.

25 A And that will be favourable
26 to the benefits on energy development in northern
27 Canada.

28 Q But what I'm saying is,
29 maybe I'm just --

30 A Sorry, I'm not under-

Lainsbury, Dusel, Dalby
Cross-Exam by Steeves

1
2 standing you then.

3 Q No, I understand that,
4 but if there is that tendency for natural gas to be
5 allowed to rise to meet the price it would command
6 on world energy markets if Canada and the U.S. hadn't
7 adopted a policy of artificially depressing those
8 prices; for instance, the government policy in relation
9 to the export price of natural gas reflects that
10 tendency to allow the price to rise. Isn't that a
11 countervailing force in relation to your argument
12 regarding postponement?

13 For instance, if this pipeline
14 had been built five years ago, gas would now be flowing
15 through it from northern Canada to markets in southern
16 Canada at prices considerably less than would be and
17 presumably will be paid in two or three or four years
18 from now. It's that trend that I was really trying
19 to get at.
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Lainsbury, Dusel, Dalby
Cross-Exam by Steeves

1 A A very good point.
2 You're leading me beyond my evidence but I'll give you
3 my answer. I would believe that by the time this
4 project would be finalized, as we sit here today I
5 recognize that/a project is finalized earlier than
6 what you're suggesting is correct. But if the project
7 was proceeded with haste today, I believe, although
8 I'm not certain, that the price of gas at the time
9 the project would go into operation would be essentially
10 the world equivalent price. That transition period
11 would be over and --

12 THE COMMISSIONER: In about
13 five years.

14 A Yes, right. I think that
15 fits in with the Federal Government's policy.

16 Q How does that fit in
17 from the point of view of northern Canadians, assuming
18 they are going to get some benefits out of this,
19 all the delays about which there have been so much
20 complaining to this point have actually put them in
21 the very best position in terms of price. Isn't that
22 what we are to conclude.

23 A Well, there's another
24 position that I would put them in if I could pull off
25 the same kind of arrangement as a premier in a province
26 south of here, Alberta did. That is to take certain
27 action or take appropriate action to see that the
28 natural gas from this part of the world was priced
29 at its true competitive value, and I was mentioning
30 yesterday that when this project is completed or any

Lainsbury, Dusel, Dalby
Cross-Exam by Steeves

1 project is completed, that that price should be the
2 maximum price based on competitive energy costs. There
3 should be no subsidizing, say southern Canada, through
4 the development of northern Canadian gas.

5 Now, Premier Lougheed was
6 quite effective in realizing the benefits for the
7 Province of Alberta, and it is still going on, and
8 what I'm suggesting is that same procedure could
9 have been followed here, that if there is really a
10 legitimate demand for increased energy in Southern
11 Canada.

12 THE COMMISSIONER:

13 O.K., I don't know --
14 well, carry on, sir.

15 MR. STEEVES: I don't know if
16 I can.

17 Q Both Mr. Commissioner
18 and you, sir, are now a long ways ahead of me. I
19 want to go back to this question or the statements
20 you made that the investigations conducted to date
21 on natural gas service in Northern Canada had really
22 just scratched the surface. Now I don't understand
23 what you mean by that, in view of the discussion that's
24 just taken place between you and Mr. Commissioner.

25 A Let me give you an
26 explanation.

27 Q Are you saying that there
28 is a great deal more work, investigation, analysis and
29 consideration has to be done and a great deal more
30 information known before one can say with certainty
"These communities can be served with gas on an economic

1 basis without any subvention or subsidy from governments
2 or from Southern Canada."

3 A I can say with certainty
4 that if the pipeline is built, Inuvik can be served
5 economically, and I don't care what qualifications you
6 may want to put on it. If the pipeline is built and
7 the gas is developed --

8 Q That's a question of
9 geography.

10 A And as you get further
11 and further away from the pipeline, as you get smaller
12 communities, my ability to say without question that
13 this community can be served, then I'm less and less
14 certain. The community under the current economics
15 that's on the borderline, I can't tell you whether
16 that will be economic or not economic until we're
17 closer to the event.

18 Q O.K. Inuvik
19 certainly, under any conceivable set of circumstances.
20 The rest maybe yes, maybe no, is that what you're
21 telling me?

22 A Fort Simpson is essentially
23 certain, certainly.

24 Q O.K. Again that's --

25 A Norman Wells --

26 Q That's geography, is it?

27 A Yes.

28 Q O.K.

29 A The whole economics is
30 based on geography.

Q I understand. That has

Lainsbury, Dusel, Dalby
Cross-Exam by Steeves

1 nothing to do with the kind of tariff that maybe put
2 into effect for -- pardon? Sorry, I didn't hear you.

3 THE COMMISSIONER: Excuse me,
4 the geography and the market?

5 A No, there are many
6 factors. We just hit upon another one here that there
7 has to be a decision made in Northern Canada as to how
8 they are going to manage natural gas distribution. Are
9 they going to manage it on an individual system costing
10 basis where each community can fly it by itself, so
11 Inuvik can put in natural gas service and get the
12 benefits, if it happens to be close to the pipeline?
13 Or is there going to be joint system costing where
14 you take a group of communities and provide them
15 service? Or are you going to have a system where
16 there is competitive rate-costing with subsidized
17 energy to other communities? That's some of the
18 decisions that I believe have to be made. You know,
19 there's the basic decision of the economics to provide
20 that service to these communities, and after you get
21 that far, you say, "Well, how are we going to handle
22 it? Are we going to handle it on a one-community basis?"

23 To give you an example, for
24 two Cabinet Ministers of the Alberta Government,
25 they came into their job in the energy area, got in
26 touch with me and said, "We want to have a discussion
27 with you," when I was in the utility business. They
28 said, "Why isn't natural gas all priced on the same
29 basis for all Albertans?"

And my answer was, "Because

Laisbury, Dusel, Dalby
Cross-Exam by Steeves

1 back in 1923, one community was served and it's called
2 the City of Edmonton; and when the next community wanted
3 to be served, the costs were higher, so a decision had
4 to be made at that point, do you share the costs or do you
5 go to two rates. The decision was made at that time
6 to go to two rates. That led a whole development of a
7 system of different rates based on economics."

8 You could have gone another
9 direction and said, "well, every time we take on a
10 community, the costs will be averaged."

11 Those are some of the things
12 that I'm pointing to when I say, "We've just scratched
13 the surface."

14 MR STEEVES:

15 Q There is a tariff which
16 might make even service to Inuvik uneconomic, isn't
17 that right, amongst the various tariff schemes that
18 are in use in the natural gas industry.

19 A There's two things we're
20 getting crossed up between economics and how you
21 are going to, what rates you're going to put in. For
22 example, you can have economics showing that it costs
23 a dollar per million B.T.U.s to supply Inuvik. But
24 at the same time the government could say, "We're going
25 to charge \$20 an Mcf. and give \$19 of that into the
26 Northern Arctic communities." On that basis, no one
27 in INuvik would take natural gas, but that's one rate
28 schedule that you could --
29
30



Lainsbury, Dusel, Dalby
Cross-Exam by Steeves

1 Q Right. But if we're
2 talking about northern communities generally and
3 whether or not gas to a given number of northern
4 communities is economic or not, a vital element is
5 what tariff is going to be applied over all of those
6 communities and what system of tariff is going to be
7 applied. Am I not correct?

8 A I am not sure why --
9 what are you using the word tariff for? If you are using
10 that there are certain costs associated with those.

11 Q Yes.

12 A Those costs can be
13 distributed in different ways which will be reflected
14 in different tariffs, then I can agree with you.

15 Q If one is going to serve
16 a community where a lateral has to be built for example
17 for a distance of 150 miles, to serve a very small
18 number of consumers or a very small load, that would
19 have an important affect on the overall tariff and the
20 economics of that tariff, would it not?

21 A Well my suggestion was
22 a recommendation -- my testimony was that we should not
23 supply service where it is uneconomic by an individual
24 customer -- individual community basis. Then once
25 you make that decision, then the tariff overall,
26 how you distribute the costs overall or how you ask
27 to reflect the revenue is then a decision that has
28 yet to be made.

29 MR. STEEVES: Right. Thank you.

30 MR. HOLLINGWORTH: Mr. Commissioner:

Lainsbury, Dusel, Dalby
Cross-Exam by Hollingworth

1 I will go now if that is all right with everyone.

2 CROSS-EXAMINATION BY MR. HOLLINWORTH:

3
4 Q Just one
5 question Mr. Dalby. You assumed that the original
6 Arctic Gas route was in place when you gave your
7 evidence. I mean by that the route that came across
8 the North Slope looped down near Aklavik and around
9 by Fort McPherson, avoiding the Mackenzie Delta and then
10 on up the Mackenzie Valley.

11 A As we mentioned in
12 our testimony, the work that was done was based upon
13 the CAGPL document of September, 1974 and that was the
14 route that was in place at that time I believe.

15 Q Are you familiar with
16 the proposed CAGSL amendment whereby it would cross the
17 delta and come down from Richards Island --

18 A No, I am --

19 Q -- on the east side of
20 the delta?

21 A No I am not. Not to the
22 extent in answering questions under the terms of
23 reference that I am here today.

24 Q In view of your experience,
25 would you be prepared to say whether the supply to
26 Fort McPherson and Aklavik would now be economic?

27 A That would not be
28 appropriate for me to answer that question without
29 looking at the routing and making an investigation.

30 MR. HOLLINGWORTH: All right.

Lainsbury, Dusel, Dalby
Cross-Exam by Hollingworth
Cross-Exam by Bayly

1 Thank you. Those are all my questions.

2 MR. GOUDGE: Mr. Bayly

3 CROSS-EXAMINATION BY MR. BAYLY:

4 Q I better address most
5 of my questions to the study that you made and upon
6 which your evidence is largely based.

7 Did you in your study take
8 a statistical breakdown of the native and non-native
9 content of the settlements which are members of the
10 Association of Municipalities?

11 WITNESS LAINSBURY: No we
12 didn't take a specific demographic breakdown of the
13 communities. I'd like to add to that a little bit.
14 When we first started on this work, we were directed
15 by Commission counsel and I think properly so. But
16 our dealings should be simply with the council of the
17 communities as representatives of that community. We
18 had initially proposed some community meetings in
19 generating an expression of community concerns. But
20 it was feared that these types of meetings would cause
21 some confusion between what we were doing and the
22 community meetings of this Commission.

23 So, our dealings with the
24 communities have been limited strictly to discussions
25 with the councils of the communities.

26 Q Would you be in a position
27 to agree with me if I were to suggest to you that some
28 of the communities that are members of the Association
29 are predominantly peopled by native peoples?

30 A I would say that's true

Lainsbury, Dusel, Dalby
Cross-Exam by Bayly

1 in the case of certainly Rae-Edzo and Tuktoyaktuk, yes.

2 Q Let's use Tuktoyaktuk as
3 an example of a community where probably the Inuit are
4 in the majority. Now, one of your recommendations is
5 with regard to the settlements and a suitable area
6 surrounding them being exempt or excluded from any
7 native land claims. You will find that I think on page
8 97 of your report.

9 THE COMMISSIONER: What did
10 you say? I didn't hear that?

11 MR. BAYLY: There is a
12 recommendation in the report on page 97 that states
13 the municipalities recommended however that such lands
14 dedicated to the native claims settlement be located
15 at sufficient distance from present corporate boundaries
16 so as not to interfere with the necessary and orderly
17 expansion of these centers in the future.

18 THE COMMISSIONER: Well that's
19 one of the recommendations Mr. Sigler said would be
20 advanced later on, based on the evidence. Well --

21 MR. SIGLER: I was going to
22 mention sir as I did in introducing our evidence
23 that the people from Stanley who did the study would be
24 giving their expertise as to the cost of physical
25 services and infrastructure to the three larger communities
26 in question and that they would not be attempting to the
27 defend the more political recommendations that are
28 contained in the study which were in fact drafted by
29 the Association and the members of the council. But
30 these people will be appearing on later panels to defend

Lainsbury, Dusel, Dalby
Cross-Exam by Bayly

1 their recommendations.

2 MR. BAYLY: All right. I just
3 want to go into the assumptions that
4 are made on which these recommendations are based.
5 If these members aren't in a position to defend these
6 things at this point and they are coming back to do so,
7 I will defer these questions.

8 THE COMMISSIONER: Excuse me,
9 not these gentlemen, the other panelists that Mr. Sigler
10 named yesterday in his opening address -- see
11 these gentlemen and I may say that I am very grateful
12 to them. They have really given us some of the meat
13 and potatoes, facts and figures and the other panelists
14 that Mr. Sigler intends to call will be dealing with
15 matters that I suppose are rather more controversial
16 and I think the people he named are northerners as I
17 recall.

18 MR. BAYLY: Well Mr. Commissioner,
19 I would like to try these out on this panel because
20 it may be that there are physical and infrastructural
21 reasons why these recommendations make sense from a
22 planning point of view. If they don't and they are
23 purely political or northern controversial issues,
24 then I am sure these gentlemen will be able to tell
25 me that.

26

27

28

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30

1
2 THE COMMISSIONER: Wouldn't it
3 be -- and I'm not -- let me just say something to you,
4 I'm not trying to stop you because -- no, no, you've
5 come to something that may be pretty important, not
6 may be, is pretty important.

7 Mr. Sigler and the people he
8 represents want to see an expansion of the municipal
9 form of government as it has been introduced in the
10 Territories and --

11 MR. SIGLER: Excuse me sir,
12 it's not our position that we want to see an expansion
13 of it, our position is that we're stuck with it for
14 certain communities and --

15 THE COMMISSIONER: Right, okay.

16 MR. SIGLER: -- we have to
17 deal with it. We're not at all supposing that it be
18 expanded to communities that don't want it.

19 THE COMMISSIONER: Okay, forgive
20 me but there's a certain point at which the
21 concept that is implicit in the views that will likely
22 be expressed by Mr. Sigler's panelists are not
23 entirely consistent with the views that will be expressed
24 by the members of your panel who are coming to discuss
25 the Nunavut proposal and that's a pretty fundamental
26 source of difficulty, well, anyway, you carry on
27 for a while and see whether these gentlemen can shed
28 any light on the subject. This means they are converted
29 from experts on municipal sewage systems into experts
30 on land claims.

MR. BAYLY: I'm not trying to

Lainsbury, Dusel, Dalby
Cross-Exam by Bayly

1
2 get into land claims with these people. There is, in
3 the report, the statement that the boundaries shall
4 be at sufficient distance to enable the necessary and
5 orderly expansion of the communities and I would think
6 that you gentlemen, as experts have some idea on what
7 that sufficient distance might be, at least with regard
8 to specific communities and I'd like you to refer to
9 Tuktoyaktuk if you have considered that one as an example.

10 WITNESS LAINSBURY: I don't think
11 that we can provide specifics in response to that. The
12 statement that you see is simply a reflection of concern
13 that was expressed by the association and there's been
14 no attempt, really, to put a finite number on the
15 distance between municipal boundaries or the expansion
16 space that should be allowed for municipalities.

17 Q All right, well, on page
18 22 you describe the sewerage collection problems in
19 Inuvik and state that a new three cell anaerobic lagoon
20 site has been choosen on the west side of the east
21 channel. Now, is that choosen within what would be
22 called the necessary buffer zone, if I can call it that?

23 WITNESS DUSEL: That site
24 was choosen by the town's engineers on the basis of
25 probably a number of considerations, one being a practical
26 requirement for separation of that kind of facility
27 from residential and other development. The other being
28 the suitability of the site by comparison with other
29 sites for development of that kind of facility. I don't
30 think that the -- that whether that site is within the

1
2 boundaries now, or future expanded boundaries of the
3 town of Inuvik, is an important consideration in selecting
4 the site. What is important is that those kind of
5 requirements be provided for and you're quite right,
6 when you're determining the area of influence outside
7 of a village boundary, those are the kinds of considerations
8 that you have to take into account. The ability of
9 that community to locate a facility of that kind in
10 that area without undue difficulty with other interests
11 in that area. That would certainly be a consideration.

12 Q And you will agree with
13 me that a sewage lagoon located on a river channel
14 has the potential, anyway, for influencing an area
15 quite a long way beyond the area required for necessary
16 and orderly expansion?

17 A Well certainly, yes.

18 Q And you will agree with
19 me that there may be potential for conflict between
20 people who want to use the land outside the communities
21 or even inside the communities and the municipal govern-
22 ments who may be competing users of various resources?

23 A Yes.

24 Q On page three, your study
25 lists the assertion of Canadian Arctic Gas that they
26 will locate camps on the right-of-way and well removed
27 from communities and on page five you state that on
28 the assumption that Arctic Gas policy relative to
29 construction camp location will be operable, that your
30 concern is lessened. Now, did you examine situations

1
2 either in Alberta or Alaska or the Yukon Territory to
3 determine whether isolation of the camps as a policy
4 of either pipeline or construction or mining outfits
5 can really do what the applicant has suggested to the
6 satisfaction of you as people who have studied this?

7 A I'd like to defer to
8 Mr. Lainsbury on this, but I'll make the initial state-
9 ment that it's my understanding that in our terms of
10 reference, we were instructed to work on the basis of
11 the proposals outlined in the applicant's proposal.

12 Q Right, well do you make
13 this --

14 A We took that as a given.

15 Q Right.

16 A Do you want to say some-
17 thing about that John?

18 WITNESS LAINSBURY: I think
19 all I can add to that, and I'd just like to confirm that
20 in fact that was an assumption that was laid on from
21 the start, that we would accept the application of
22 that policy. We did attempt to, at the request of
23 the Association, take a quick look at the then current
24 experience in Alaska and that's reflected in a report
25 that's appendisized to our own report, but beyond the
26 information contained there, which doesn't really deal
27 in any great specifics with the question you're talking
28 about, the answer is no.

29 Q All right, so you based
30 your assumptions in this area on the fact that

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Cross-Exam by Bayly

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the applicant could do what it said it could do with
regard to the isolation of camps from the communities?

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Cross-Exam by Bayly

1 A Yes, we were only interested
2 in this point from the point of view of trying to
3 project populations specifically in the three communities
4 that we've discussed.

5 THE COMMISSIONER: Well, you're
6 in a position of not being able to sort out all of the
7 problems that this Inquiry is wrestling with, so you
8 confined yourself to a set of assumptions. You've
9 told us what you thought would happen, giving those
10 assumptions. That's the long and short of it.

11 A That's correct, sir.

12 WITNESS DUSEL: Sir, you may
13 recall, I think certainly Commission counsel will
14 recall that when we were first invited to draft a
15 program, we had drafted a fairly expansive program
16 and that this was subsequently trimmed down to within
17 what was considered by all parties to be practical
18 limits, to give you the most useful information for
19 the least effort.

20 THE COMMISSIONER:
21 Yes, I recall that
22 vaguely, and I'm pleased, let me say, that you confined
23 yourselves to the things you know best.

24 MR. BAYLY: I'm not trying to
25 suggest anything judgmental in my question, sir. I
26 just want to define the limits of the study so that
27 I know what I'm dealing with.

28 Q Is one of your other
29 assumptions that the gas pipeline could be studied
30 in isolation from possible other developments within
 the corridor, such as highway, oil pipeline, hydro

Lainsbury, Dusel, Dalby
Cross-Exam by Bayly

1 transmission line, etc.?

2 WITNESS LAINSBURY: That was
3 a basic assumption which was been built into our
4 population projections. We've dealt only with what
5 we felt would be the impact of the pipeline.

6 Q All right, so that the
7 statement on pages 7 and 8 of your study that the
8 communities will return to normal growth rates in the
9 post pipeline period is based on this assumption.

10 A That's correct.

11 Q Did you take into account
12 the possibility of looping the gas pipeline or did you
13 just look at the project as projected by the two
14 applicants?

15 A Our employment information
16 is based simply on the March '74 CAGPL application.

17 Q Could you tell me where
18 your information came from on page 28 that the
19 Inuvik Hospital could handle a population of about
20 37,000 people?

21 A 37?

22 Q I think that's page
23 28, Mr. Sigler.

24 A Without direct reference,
25 I believe that's based on a simple extrapolation of
26 the number of beds and the Territorial standard that's
27 used of 3.5 beds per thousand.

28 Q What kind of a population
29 does it serve at present, to your knowledge? I make
30 the assumption that it serves more than the Town of

Lainsbury, Dusel, Dalby
Cross-Exam by Bayly

1 Inuvik.

2 A Yes, I can't give you
3 a precise answer off the top of my head.

4 Q Did you conduct your
5 Alaskan study with regard to the increase of use of
6 hospitals in Alaska before making the statement that
7 you made on page 28?

8 WITNESS DUSEL: I'm sorry,
9 Mr. Bayly, I gave that statement in my presentation
10 and I omitted to give you the reference from which
11 that was taken. The information on which we based that
12 projection is contained in a publication,

13 "Pipeline Impact Information Centre Report No. 3,"
14 of August 7, 1974, Fairbanks, North Star Borough.

15 Q Thank you, sir.

16 A That's also listed in
17 our bibliography. It's not our experience; it's the
18 experience that someone else reported, which we used
19 to make a statement.

20 Q So your figure is made
21 up from that Alaskan experience, as much as other
22 things.

23 A Yes.

24 Q And in this you only
25 go into the bed space as opposed to the availability of
26 medical personnel and the ability to attract them
27 to an area like this.

28 A Well, I recall that this
29 reference refers only to the question of the increase
30 in patient load due to the pipeline activity, hospital

Lainsbury, Dusel, Dalby
Cross-Exam by Bayly

1 accidents and so forth, and the experience as it is
2 reported in this document is that there is not a
3 significant impact in the day to day operation of
4 the hospital. We have used their experience in extrapolating
5 this situation.

6 Q Now, in the area of
7 recreation, you acknowledge that the presence of
8 more people from the south will place a greater load
9 on recreation facilities which are in some communities
10 not adequate to provide service to the people that
11 are there at present. You also mention traditional
12 pursuits, but don't mention facilities that are or
13 are not available for traditional recreational
14 activities. Have you looked into that in your study?

15 A I think I should clarify
16 again that when we talk about recreation, there is a
17 limitation on the entire field of recreation. Our
18 discussions and our investigations were limited to
19 those sectors of the recreation field that involve
20 capital facilities. We dealt with such things as arenas,
21 rinks, swimming pools, parks, things that require
22 capital to develop, and entail operating
23 costs. The other part of the recreation field which
24 deals more with development of leadership and mainten-
25 ance of the existing cultures, encouragement of the
26 existing cultures which do not incur large or involve
27 large capital expenditures, we did not deal with.

28 Q All right.

29 MR. SIGLER: I might add, sir
30 that, in our fourth panel, we will be calling Mr. Goulet and

Lainsbury, Dusel, Dalby
Cross-Exam by Bayly

1 representatives of some of the Town Councils to speak
2 about recreation programs as well as facilities.

3 MR. BAYLY: I just want to
4 confine myself to facilities because we did have some
5 evidence, and I believe you were present for it, from
6 Mr. Dittrich concerning a facility that an attempt is
7 being made to construct in the Town of Inuvik, the
8 Ingamo Hall. That would be within the realm of your
9 study, I would expect from the answer to your last
10 question.

11 A I think not. I think that
12 I would have to say that that would not be included
13 in our study. Our studies were confined, rightly or
14 wrongly, to the typical recreational facilities --
15 arenas, hockey rinks, swimming pools and so forth.
16 You're talking about the native Friendship Centre and
17 we did not include those kinds of facilities in our
18 studies.

19 Q All right, but you will
20 acknowledge that they require capital expenditure as
21 well.

22 A Certainly, yes.

23 Q All right, and is it
24 fair to say then about your study that you confined
25 yourself on pages 28 and 29 to what you, if I may
26 quote you,

27 "It will be critical importance for the
28 applicant to ensure that the Town of Inuvik
29 will provide first-class recreation facilities
30 comparable to the best that the south has to offer."

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Cross-Exam by Bayly

1 A Yes.

2 Q And these will be directed
3 to those southerners present and future to a large
4 extent --

5 A Yes.

6 Q -- although they may also
7 be utilized to a certain extent by the native
8 northern peoples/are in the community now and will be
9 in the future.

10 A I think that our terms
11 of reference required us to identify two things.
12 (1) that there would be an impact on capital requirements
13 due to the accelerated growth for recreation facilities.
14 (2) that there will be an impact because of the influx
15 of new population, new people which will change the
16 need, the recreation need patterns. I think this
17 will be expanded upon later on; and that it will be
18 important that the community have a very significant
19 role in determining the kinds of recreation facilities
20 that will be provided both through their own funding
21 and through funding that the applicant is anticipated
22 to put into the recreation field, in order to make
23 that community attractive for their own people.

24 I think we made the point
25 specifically with respect to Inuvik, that the applicant's
26 participation in the funding of recreation facilities
27 should be directed toward a co-operative effort in
28 which the community has a part, rather than to pro-
29 viding specific things which are specifically directed
30 towards the needs of their people alone.

Lainsbury, Dusel, Dalby
Cross-Exam by Bayly

Q I understand.

A That's an important
thing to note.

Q All right. What I am
concerned with is that you will agree I take it that
there are finite resources for recreation.

A Yes.

Q That the population balance
will change in the centers that we are talking about
like Inuvik.

A Yes.

Q That it may be possible
that those people who have been there and come over
from places like Aklavik may find that their recreational
needs in capital expenditure terms may take second
place of those of the applicant and because of studies
like yours saying that there will be a pressing need
for traditional southern recreational facilities. It
may be some time before they can go ahead with ones
that aren't so traditionally southern.

A I think there is that
possibility. I think this is why it is important that
the community decision makers have a role in determining
what the expenditures will be, what the facilities
will be and how the whole field of recreation
facilities will be developed. I am presuming that
through that process, these needs that you are talking
about, the traditional needs which we have not specifical-
ly identified, that they will be taken care of through
this process of community participation in the develop-
ment of recreation programming.

Lainsbury, Dusel, Dalby
Cross-Exam by Bayly

1 Q Well did you see that
2 happening at present in any of the communities that
3 you studied?

4 A Well of course at present
5 there isn't any of the kind of impact that we were
6 directly commissioned to study.

7 Q I understand that but
8 you did say that there is and will be a pressing need
9 in some communities for more of the facilities based
10 on the southern pattern so you must have had a look at
11 what is there now.

12 A Yes.

13 Q In your opinion, in terms
14 of capital expenditures is what is there now in
15 communities like Inuvik geared to what you have called
16 "the best that the south can offer" or something else?

17 A Well, I think as we have
18 stated in our report and as I outlined in my presenta-
19 tion yesterday, the recreation facilities which exist
20 at the present time are in many cases applicable and
21 appropriate to the population that is there now. But
22 when the impact of the influx of new population hits
23 that community, those needs will change, the appropriate-
24 ness of the facilities will change and that some
25 change in the program of providing recreation facilities
26 will have to occur and that there will be an impact on
27 financing requirements because of this. Bear in mind
28 that is the primary purpose of our study to determine
29 cost impacts.

30 Q Right. Let's turn to page

Lainsbury, Dusel, Dalby
Cross-Exam by Bayly

31 and another subject then. You state there that "the volume of goods transported into the Town of Inuvik will more than double during the study period and that..." -- I am skipping a bit here -- and then "continued demand will be placed upon the community for water frontage and storage in close proximity to the waterfront." Now, we have heard evidence in the past couple of days that there is very little waterfront left for the use by people in recreational activities either to launch their boats or to swim or even just to give them access to the water in parkland.

In the Town of Inuvik in your opinion is what little land is left for people going to be taken up by the doubling of the requirement for waterfront and storage?

A In this paragraph, we are intending only to show the impacts that can be expected to occur. How the Town of Inuvik deals with that problem is something that will have to be left to them and to whoever else they can interest in that problem. Now, to give you an example that I am more familiar with, in the Town of Hay River, there is a similar problem of shortage of waterfront. The problem is probably a considerably more acute than it is in Inuvik and the Town of Hay River has undertaken on its own studies to determine how that problem can be solved. They have another problem of industrial area being required in a specific place which is presently predominantly residential. That's not a simple problem to deal with but that's the problem that

Lainsbury, Dusel, Dalby
Cross-Exam by Bayly

1 they are going to have to face and deal with. They
2 are undertaking to do that. I am saying to you that
3 in the Town of Inuvik, the same will have to happen
4 Their economic and commercial and industrial needs
5 will have to be determined. They will have to be
6 analyzed. The cost of meeting those needs will have to
7 be analyzed with full account being given to the social
8 impacts which occur and the Town will have to solve those
9 problems. We have not attempted to provide solutions
10 to those kinds of problems.

11 Q I understand that but
12 you have indicated how much increased waterfront and
13 barging activity there will be. Have you also
14 indicated in your study or to the Town of Inuvik how
15 much waterfront they will probably require to meet the
16 impact of the people moving into the town for the
17 recreational needs?

18 A No, we have not determined
19 this quantitatively. We have only made the statement
20 that there will be an increased requirement for this
21 kind of land use.

22 Q You have observed in
23 your comparison between Alaska and the Mackenzie Valley
24 and I take it that is what that observation is on page
25 three that the relative lack of sophistication and
26 experience in urban management in the Northwest
27 Territories makes these communities highly susceptible
28 to economic development of any kind, let alone the
29 largest private undertaking in history.

30 Now, I invite you to agree with

Lainsbury, Dusel, Dalby
Cross-Exam by Bayly

1 me that the following differences in institutions and
2 structures in Alaska may be a reflection of this
3 difference in sophistication. First of all, that
4 Alaska is a State and as such is entitled to royalties
5 from mineral production on government land. That's
6 not so in the Northwest Territories.

7 A I certainly agree that's
8 an advantage, yes.

9 Q And that the Alaskan
10 native claims were settled prior to the pipeline
11 construction and we don't know whether that's going
12 to happen in this situation.

13 A I'm afraid that's a
14 subject that I can't comment on. I am not qualified
15 to comment on that.

16 Q And that Alaska contains
17 second and third order urban centers where the
18 Northwest Territories has perhaps two of those in
19 Yellowknife and Hay River.

20 A Yes.

21 Q Now, in your appendix E,
22 you refer to some of the differences between Alaska
23 and the Northwest Territories that may have relation-
24 ship to the severity or differences of impact. Have
25 you had a chance to look at the evidence of particularly
26 Dr. Dixon who gave evidence this week?

27 A No sir, I have not. I'll
28 defer to Mr. Lainsbury. Perhaps he has.

29 Q Have you had a change
30 Mr. Lainsbury?

Lainsbury, Dusel, Dalby
Cross-Exam by Bayly

WITNESS LAINSBURY: No I

haven't sir.

Q Her evidence indicated that variables such as size of community, homogeneity of a community and the sophistication of the community and its leadership structure and its experiences of past development in the Alaskan situation within it had a large bearing on how individual communities were able to cope with and understand the impacts of the pipeline development there. Would that be parallel to observations you made in Alaska?

A First of all, we didn't make these observations ourselves. We hired an Alaskan consultant to provide this report for us. But I am speaking from experience in other communities that generally that kind of statement is quite correct.

Q She said for example that Anchorage being a large sophisticated center with a sophisticated city government and being a center that had experienced boom economies before was much better able to withstand the pressure of development than was Fairbanks which was smaller, less sophisticated and needed the development and so was less able to dictate terms. Would those be the kinds of things that you'd be concerned with in Mackenzie Valley communities and their ability to deal with the development on terms that they would like to help write?

A I think when we are talking about sophistication in communities that probably the thing that we would lean on as being

Lainsbury, Dusel, Dalby
Cross-Exam by Bayly

1 important is a tradition of planning within a
2 community of forward planning and the ability of a
3 community to plan. I think that the calibre of people
4 -- again, this is rather subjection -- I think that
5 the calibre of people who are managing the communities
6 in the Territories, particularly the major communities
7 are such that they can cope with the kind of accelerated
8 growth that we may be looking at but only if they
9 have the kind of access to funding that will allow them
10 to do the forward planning that they know they have
11 to do.

Lainsbury, Dusel, Dalby
Cross-Exam by Bayly

1
2 Q What about the problem
3 that Dr. Dixon raised with regard to the homogeneity
4 of the community? Have you observed whether or not
5 the communities in the Mackenzie Valley are divided
6 on certain fundamental issues? It might make it impossible
7 for them to decide --

8 MR. SIGLER: I wonder which
9 communities, Mr. Bayly is referring to in that question?

10 MR. BAYLY: I'm asking the
11 question, Mr. Commissioner, because these gentlemen
12 have studied the various communities and have talked
13 to the councils and perhaps the councils have raised
14 these problems themselves.

15 A I think that the point
16 here sir, is that we have only talked to the councils
17 and our discussions with the councils have really not
18 reflected the kind of division that you seem to be
19 referring to.

20 Q Now does the relative
21 lack of sophistication and experience then, that makes
22 them highly susceptible to economic development refer
23 only to access of funding in your statement on page
24 three?

25 A I would say in relation
26 to the three communities that we anticipate experiencing
27 substantial impact, but that's correct. I think they
28 are competent to handle this kind of expansion given
29 adequate funding.

30 Q Well, where is the lack

Lainsbury, Dusel, Dalby
Cross-Exam by Bayly

1 of sophistication then? Where does that show up because
2 you've mentioned that in your study on page three. What
3 can't they do very well?

4 A I think we're referring
5 here to in some cases, a lack of previous experience
6 in large scale land development. I think also, in fact
7 that we're reflecting a concern here that was raised
8 at some of the council meetings and workshops that we
9 held with the various councils.

10 Q Well, what indication
11 do we have that if they have access to this money that
12 they will spend it wisely for their communities if
13 they haven't got this sophistication and experience?
14 Where are they going to get it?

15 WITNESS DUSEL: I think, Mr.
16 Bayly, if I may interject here, that there have been
17 a number of examples of what we're referring to through-
18 out our testimony here of a lack of sophistication
19 and experience in urban management. You'll recall for
20 instance, Mr. Dalby's testimony that when the matter
21 of providing natural gas to the communities is resolved
22 to the point of making investments and actually setting
23 up operating systems, there will be a great deal of
24 study required on the part of the communities to ensure
25 in their behalf that they are getting the best type
26 of management systems and that they are getting the
27 best kind of arrangement with the suppliers of the gas
28 and with the transporters of the gas. This is one area
29 in which they have virtually no experience because this
30 kind of situation has never applied before. They will

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Cross-Exam by Bayly

1
2 need help there. Other situations are evident in the
3 forward planning which has been carried out in the major
4 communities and which we think should be undertaken in
5 some of the other communities in the Mackenzie Valley.

6 Q Well, do you have a
7 suggestion, sir, with regard to your example or maybe
8 Mr. Dalby has, as to how the smaller and less sophisti-
9 cated communities in the Mackenzie Valley can protect
10 themselves, say from a town like Inuvik making a good
11 deal for itself on gas, but not providing for an averaging
12 scheme on rates or something like that that would make
13 it possible for a community the size of Tuk or one the
14 size of Aklavik to purchase gas on a subsidized basis
15 if that were the only way that they could get gas in
16 in a way that was competitive with other fuels.

17 A Yes. Before I ask Mr.
18 Dalby to reply to you directly, I would like to point
19 out that our submission is on behalf of the Urban
20 Municipalities Association and in the evidence that we
21 give, I think you should recognize that throughout.
22 That's where our responsibility lies.

23 Q I understand that and
24 all I'm asking you to do there is perhaps to step out-
25 side of that and give me your professional opinion on
26 the problems of the smaller communities.

27 WITNESS DALBY: Do you want
28 to give me the specific question relating to gas
29 supply?

30 Q Well, the concern that I

Lainsbury, Dusel, Dalby
Cross-Exam by Bayly

1
2 had, because you raised this in your cross-examination
3 from Mr. Steeves, was that the historical process of
4 making arrangements to get supplied with gas that occurred
5 even in a far more sophisticated area, such as Alberta
6 made it probably difficult for some communities to get
7 natural gas at competitive rates there.

8 My concern is you have told
9 us that Inuvik, no problem, they can get gas, they're
10 right on the pipeline. They can make an arrangement to
11 get it at a competitive rate. You're not too concerned
12 about them. What I'm concerned about is how does a
13 smaller community that might like natural gas as a fuel,
14 bargain, especially given the fact that Inuvik may get
15 gas prior to a community 50 miles off the pipeline
16 being supplied with it?

17 A Okay. First of all, I
18 didn't say there was no problem with Inuvik getting
19 natural gas. I said on the basis of economics there's
20 no difficulty and there's quite a difference and the
21 answer to how other communities can look after their
22 needs, it can be done and I'll draw from the experience
23 in Alberta. It can be done by a group of communities
24 recognizing that they're inter-dependent and that they
25 live in the same community and by agreement they agree
26 that they will share the benefits because if the pipeline
27 goes in a particular location, that's an accident
28 that it goes in that particular location. It's an
29 accident that that particular community is closer to it.

30 So, at times, and I've seen

Lainsbury, Dusel, Dalby
Cross-Exam by Bayly

1 this happen, that they're very rational minds that come
2 to bear on a problem like this and they reach agreement.
3 I will also suggest that these times are less frequent
4 than the other times where the fellow that is closer
5 to the pipeline wants all the benefits and the fellow
6 that's further away has some trouble letting his voice
7 be heard. And then there's a thing that goes along
8 with this, the offsetting or the balancing power and
9 it's called political action and again you can draw from
10 Alberta the various forms of political action. For
11 example, when the export of natural gas was suggested
12 from Alberta, one of the requirements set out by
13 the Alberta utility companies was that they have first
14 call on the natural gas for domestic and commercial
15 use and first call for a certain quantity for an industrial
16 use and this was a condition of export. This is -- you
17 know, some of these things have already happened in
18 the past.

19 Other things that are happening
20 right into Alberta today, there is 70 million dollars
21 being used to subsidize natural gas and Alberta really
22 doesn't need its natural gas subsidized when you look
23 at the northern situation. So here you will face a
24 situation, I'll go back to my ice cream and the picnic
25 scene. There is a block of ice cream to be had here
26 and it's how that ice cream is shared has yet to be
27 determined and you can think of the communities that
28 are close to the pipeline and that are further away
29 from the pipeline, but there are communities in the
30 high Arctic that are experiencing very high energy costs

1 and I think that the federal government must have a
2 policy with regard to energy for northern Canada and
3 this just gets into the bigger issue. But what I was
4 pointing out earlier is that the communities in this
5 area have to have the wherewithal to be in a position
6 where their voice can be heard, where they understand
7 the issues, because I found, from experience where people
8 do understand the issues, the chance of getting them
9 resolved are a lot better than just fighting amongst
10 ourselves without really knowing what the issues are.
11

12 Q Although you recognize
13 the possibility in various situations that the ice
14 cream will all be eaten before some people understand
15 the issues.

16 A No, the ice cream will
17 melt before we divide it, that's my concern.

18 Q I see.

19 MR. STEEVES: That's like
20 the parfait in the Explorer Dining Room.

21 A I will make no comments
22 on the food in the Explorer Dining Room today. That's
23 not because I'm not qualified to do so.

24 THE COMMISSIONER: Well, why
25 don't we try the coffee?

26 MR. BAYLY: I just wanted
27 you to know that I was finished. Thank you very much.

28 (PROCEEDINGS ADJOURNED FOR A FEW MINUTES)
29
30

Lainsbury, Dusel, Dalby
Cross-Exam by MacQuarrie

(PROCEEDINGS RESUMED PURSUANT TO ADJOURNMENT)

MR. GOUDGE: Mr. Bayly has completed his cross-examination and Mrs. MacQuarrie, I think, has several questions for this panel.

CROSS-EXAMINATION BY MRS. MacQUARRIE:

Q Mr. Dusel, Inuvik is an acute care regional hospital. Has any consideration been given to the need for the special care auxiliary convalescent type of hospital, in your estimate?

WITNESS DUSEL: No, we didn't consider any specialties of the health care areas such as that.

Q On page 10, paragraph 2, are you anticipating that some of the pipeline construction workers will spend their off-time in Inuvik?

A No. The assumption that we're using throughout this study is that the work plan that Canadian Arctic Gas in their application outlined, that is that construction camps will be isolated, so we're not disputing any construction workers having an impact on the Town of Inuvik. The impact occurs from the permanent workers.

Q Who will be employed.

A By reason of the pipeline.

Q I see.

A And related industries.

Q Was there any thought given to the possibility that the Town of Inuvik might

Lainsbury, Dusel, Dalby
Cross-Exam by MacQuarrie

1 apply for the people to spend their off-time in the
2 community?

3 A No, we didn't consider
4 that.

5 Q In your own opinion ,
6 then, is this a possibility?

7 A I don't think that I
8 should hazard an opinion on that because I'm really not
9 qualified.

10 Q Thank you. On page 17
11 dealing with the Town of Fort Simpson and the educational
12 facilities, could you clarify for me whether or not a
13 shift-basis of school attendance is anticipated there?

14 A I don't believe so. I
15 don't believe that any departure from the normal,
16 from the type of educational procedure that is
17 existing now was anticipated in making these projections.

18 Q Thank you. Your submission
19 includes the projected need for education,
20 hospital facilities, policing, recreational, sewage
21 and sanitation. It appears, however, that the need for
22 social services, increased social services has not
23 been included.

24 A That's correct.

25 Q Could you tell me why
26 this is?

27 A Well, as I said in my
28 direct presentation, these factors were not omitted
29 because we didn't consider them important. They were
30 omitted because our direction was to concentrate our

Lainsbury, Dusel, Dalby
Cross-Exam by MacQuarrie

1 efforts on those kinds of facilities which would
2 require capital investments, and which would therefore
3 have a high cost impact, and bear in mind this is our
4 thrust, the cost impacts, not that social services
5 don't entail a high cost for people involvement, but
6 this was not the kind of thing that we were directed
7 to put our attention to. We're certainly not implying
8 that it's not important. I want to stress that.

9 Q But surely the municipality
10 would be responsible for providing housing for the
11 staff working in the social service field, would it
12 not?

13 A Yes, we've looked at the
14 problem of providing housing, and I think you would
15 agree that that component which would be necessary to
16 provide accommodation for workers in the social field
17 or really workers in any specific sector, would be
18 covered under the overall umbrella of our identification
19 of the total housing needs, without specifically saying
20 three or five units will be required for social
21 workers.

22 Q O.K., There hasn't in
23 your presentation again, you didn't go into the need
24 for, or perhaps there isn't any need for environmental
25 health officers. YOU didn't go into that area at all.
26 Was that not --

27 A No, we didn't go into that
28 area and that certainly doesn't mean that there isn't
29 a need for it. It means that our direction was not
30 to put our attention to those areas. Our direction was

Lainsbury, Dusel, Dalby
Cross-Exam by MacQuarrie
Cross-Exam by Goudge

quite specific.

MRS. MacQUARRIE:
I realize that, yes.

Thank you, I have no further questions.

MR. GOUDGE: Sir, I have some
questions.

CROSS-EXAMINATION BY MR. GOUDGE:

Q Could I ask you to turn
to the recommendation section of the Stanley Report?
I'd like to ask you first about one or two of the
recommendations that you make. Mr. Dalby, you're
familiar with the recommendations, although I gather
you weren't involved in the writing of the report.

WITNESS DALBY: That's right.

Q Dealing with the gas
supply to communities recommendation, the same
definition of economic appears there as you adopt
in your evidence, I take it, that is that an economic
community is one which is where there's an economic
advantage based on a community distribution system.

A That is correct.

Q Let me ask you whether
-- why you chose that definition as opposed to a
distribution system that involves a number of communities?

A You get the second
definition by looking at the bottom of the tables
4.1, 4.2 and 4.3 because you'll see at the bottom of
each or any of these tables that they state an overall
franchise pricing system. This leads you to the
average cost of natural gas service for the community,

Lainsbury, Dusel, Dalby
Cross-Exam by Goudge

1 and that in effect is what is called joint system
2 costing, where the costs are spread over a group of
3 systems; but in the Arctic Gas study they used the
4 terminology "community pricing system". So both
5 systems are outlined in these tables.

6 Q Just so I'll understand
7 it, taking Table 4.3, on the unity costing system
8 it appears to me that gas is a cheaper source of
9 energy than oil.

10 A That is correct.

11 Q Does that indicate that
12 on a unity costing system, it would be "economic" to
13 distribute gas to all the communities?

14 A On the assumptions upon
15 which 4.3 was based, it shows that the -- instead of
16 saying "the equivalent cost of oil" it should say
17 "the 1984 estimated cost of oil" for all communities
18 is \$9.03 per Mcf. equivalent, and that Mcf. contains
19 by definition going back to CAGSL's work, 1,100,000
20 British thermal units. The average cost of providing
21 natural gas service for that same group of communities
22 is \$5.08, and then I went on further to suggest that
23 I would not, if I had the responsibility, put gas
24 into Enterprise where it would cost \$62.96 per Mcf.
25 It would be much more rational, I think, to supply
26 natural gas only where it's economic, and if you must,
27 take the benefits resulting from the difference in the
28 cost of service and subsidize Enterprise natural gas
29 or subsidize Enterprise's fuel oil rather than put in
30 uneconomic pipelines. I think it's a waste of resources

Lainsbury, Dusel, Dalby
Cross-Exam by Goudge

1 to put in pipelines to provide natural gas where another
2 source of energy can supply the community on a lower
3 cost.

4 Q Even though on a unit
5 pricing system it might still be "economic" to supply
6 gas to Enterprise?

7 A Yes, but on the basis
8 you've got to recognise that on the unit pricing system
9 for example, if we took all the wages in Canada and
10 said, "Let's go to a unit pricing system," you can,
11 I think anyone can appreciate what happens in that
12 basis. Then everyone ends up with the same salary
13 and the end of that would be a fairly chaotic situation .
14 unless you had a very compatible bunch of people.

15 THE COMMISSIONER: Excuse me.
16 You're saying that you would not, even if a joint
17 pricing system were adopted, you would not want any
18 community to participate if the cost of delivering
19 natural gas to that community considered in isolation
20 exceeded the equivalent cost of oil.
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Lainsbury, Dusel, Dalby
Cross-Exam by Goudge

1 A That is
2 correct.

3 Q I take it the reason
4 for that is that you consider any other scheme to be
5 in this allocation of resources in some kind of macro
6 sense?

7 A Well it is. If it is
8 going to cost you more to put in natural gas and you
9 have to say spend an extra \$1 million on pipelines
10 to put in natural gas and the cost of present value
11 of those costs will become \$1 million, it would be better
12 to take that same million dollars, don't put in the
13 pipeline and give it to the people in say the Arctic
14 Islands to help reduce their cost of energy.

15 Q Yes I understand that.
16 Thank sir. Now dealing with the municipal tax level
17 recommendation that's in the report and Mr. Lainsbury
18 I take it this would be directed at you. Your
19 recommendation is that there be a fixed rate of
20 increase in the annual per capita tax load on any
21 community over a given limited number of years. Is
22 that so?

23 WITNESS LAINSBURY: Yes again,
24 this is the recommendation of the Association that I
25 can perhaps help to clarify the recommendation. That's
26 the intent, yes.

27 Q Given that, what constraint
28 is there on municipal spending? I take it municipal
29 spending that context is made up of tax based funds
30 and higher government supplied funds?

Lainsbury, Dusel, Dalby
Cross-Exam by Goudge

1 A The restraint on spending
2 apart from of course the responsibility of the council
3 is on the other part of that recommendation which
4 brings tapering off condition after construction
5 such that the per capita tax rate would be allowed
6 to increase after construction.

7 Q To mop up any deficit
8 that may arise or that may have arisen.

9 A Yes, basically, that's --
10 let me get the --

11 Q It's on page 104 sir but
12 that completes my question on that matter. Perhaps
13 you could turn to the next page -- page 105 -- and
14 address yourself to the indirect impact recommendation.
15 Firstly, your evidence in chief yesterday as I under-
16 stood it didn't deal with any local inflation impact
17 evidence. Is that so?

18 A That's correct.

19 Q Were any studies done
20 by your organization to found this recommendation which
21 would assist us as to a prediction of local inflation?

22 A No, I believe this
23 recommendation is a reflection of the concern that was
24 expressed in many of the communities relative to a
25 localized inflation that may occur in the valley. I
26 think that that concern is a reflection
27 experienced by the members of the Association in
28 Alaska.

29 Q I see. Now, your evidence
30 yesterday did deal at length with your population

Lainsbury, Dusel, Dalby
Cross-Exam by Goudge

1 estimates and again so I will understand them perhaps
2 you could turn to the rather more fully fleshed out
3 calculations in your report. I would like you to
4 turn to the Inuvik section which is at page 16 of the
5 third section of your report.

6 You, at that point make a
7 number of assumptions concerning multipliers for a
8 variety of factors. First I would like to ask you about
9 your third assumption, that is the average household
10 size of employees with skilled jobs being 2.5. First
11 of all why that figure. Secondly, what is wrong with
12 the Gemini North figure of 3.5 that was used in their
13 Northwest Territories study?

14 A The assumption number three
15 relates of course to assumption number two that all
16 skilled jobs will be filled by personnel from outside
17 the Territories. Then we go on to say that skilled jobs
18 with an assumed average of 2.5 per household. It's
19 my understanding that one of the Gemini reports in fact
20 used that figure of 2.5.

21 Q Yes. THAT was the one
22 they did for Arctic Gas I take it?

23 A Right.

24 Q Yes.

25 A We felt that was a
26 reasonable number for assumption purposes.

27 Q They used 3.5 in their
28 Northwest Territories study, did they not?

29 A Yes. There were sub-
30 stantial differences between the two studies.

Lainsbury, Dusel, Dalby
Cross-Exam by Goudge

Q Can you give us any reason for your choice of 2.5 as opposed to 3.5?

A It's largely subjective. We anticipate that the kind of people that are going to be coming in are basically young professionals. It will certainly be a mixture of families and singles. 3.5 is getting-towards an average family size and we think there would be enough non-family households coming in that we should reduce that factor as we have suggested to 2.5.

Q Your 2.5 figure I take it is based on no survey data or any base line data?

A No. It's really based on the assumptions that I have mentioned.

Q Now the second multiplier if I can use that phrase, that you assume is in your fourth assumption where you speak of total induced employment opportunities being 1.0 times permanent employment and .2 times temporary employment. Is that correct?

A Right.

Q Once again, I would ask you for the basis for both those assumptions. Why 1.0 for permanent employment; why .2 for temporary employment?

A These are really based on observations in similar types of communities. I don't have the precise statistical background with me. I would point out though the similarity between this assumption and that made by Van Ginkel not in quite the same terminology, but he was talking a range between

Lainsbury, Dusel, Dalby
Cross-Exam by Goudge

1 a 40:60 ratio and a 50:50 ratio between direct and
2 induced employment which is really what we are talking
3 about here.

4 Q His 40:60 ratio is 1.5
5 in your terms?

6 A That would be correct.
7 He was using 40:60 I believe in the major communities
8 and 50:50 which would 1:1 as we have used in the smaller
9 communities.

10 Q Now, in terms of the
11 secondary employment that you were postulating, did
12 you take into account government secondary employment
13 or are you speaking here only of induced employment
14 induced in the private sector?

15 A I think we have to be
16 careful of terminology here. You are talking about
17 secondary employment and in the sense that Van Ginkel
18 uses the secondary he is talking about primary and
19 secondary in the sense that we would refer to basic
20 employment. He is talking about tertiary and quaternary
21 as we would refer to non-basic.

22 Really what we are talking
23 about here is the relationship between basic and non-
24 basic being 1:1. The induced employment being a total
25 induced employment and including as you say government
26 which would be really in the quaternary or the
27 tertiary sectors.

28 Q So your non-basic includes
29 government.

30 A That's correct. yes.

1 Q Now your -- the third
2 figure that I would like to refer you to is in
3 assumption six where you speak of 70% of induced
4 employment being made up of family heads. I take it
5 that that's family heads as opposed to single persons?

6 A Yes.

7 Q Once again, the basis
8 for that selection, given that others for example Mr.
9 Trusty for Arctic Gas used an 80% figure. Can you
10 give me the basis for your choice of 70%?

11 A Again without making
12 a statistical reference, it is simply a judgment
13 reflection on the fact that all of the workers coming
14 in will not be -- will not -- let me rephrase that.
15 The household head of households moving in will not
16 be the only employee from that household but there will
17 be perhaps wives for example taking advantage of
18 employment opportunities.

19 Q Basically, your best
20 judgment as opposed to the product of any base line
21 field work.

22 A That's correct.

23 Q Now, after making those
24 assumptions and dealing in a continuing way with your
25 Inuvik calculations, you go on to a high population
26 forecast and a low population forecast. Are you
27 including in both those calculations the construction
28 phase of this pipeline proposal as well as the sub-
29 sequent operations phase?

30 A We are using the employment

Lainsbury, Dusel, Dalby
Cross-Exam by Goudge

1 data, both permanent and temporary that we footnoted
2 from the CAGPL submission. I don't have direct
3 reference to the table. I am sure you have it.

4 We are not using pipeline
5 construction work forces as part of this population
6 projection. No.

7 Q I take it it is not the
8 case then that your temporary employment position
9 figure is designed to indicate construction work forces?

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Lainsbury, Dusel, Dalby
Cross-Exam by Goudge

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2 A Not construction work
3 forces directly associated with the pipeline, but
4 construction work forces anticipated within the CAGPL
5 submission that would be related to gathering fields
6 and whathaveyou adjacent to and in the Inuvik region.

7 Q I see. Well, just so
8 I'll be sure to understand, let me ask you to go through
9 your high population forecast calculation very quickly
10 with me please. It's on page 17 of your report.

11 As I understand it, taking
12 your permanent skilled employment positions at 117, you
13 derive that figure from the applicant's application.

14 A Right, that's correct.

15 Q And you apply to it your
16 assumed family size.

17 A Right.

18 Q Permanent semi-skilled
19 and unskilled positions times family size, the derivations
20 of those figures are the same sources.

21 A Yes.

22 Q Application and your
23 assumption.

24 A That's correct.

25 Q Induced employment is
26 simply the sum of those two figures times your multiplier?

27 A Yes, plus the multiplier
28 for temporary positions and you note there that we
29 assume that each of those temporary positions represents
30 one half a man-year so we've taken --

Lainsbury, Dusel, Dalby
Cross-Exam by Goudge

1
2 Q Represents, I'm sorry,
3 what?

4 A Represents one half
5 man-year and our multiplier related to temporary positions
6 is .2 times one man-year, so that we've divided -- the
7 application shows 1,435 temporary positions in this
8 particular year. We've divided that by two to give
9 us the number of man-years, 717 approximately.

10 Q I'm sorry, I'm still not
11 clear what is indicated by the temporary position figure
12 of 1,435. I understand it's derived from the application
13 but --

14 A My interpretation of
15 the information from the application is that these
16 temporary positions are associated with basically,
17 gathering lines and similar activities in the Inuvik
18 region.

19 Q I see. Have you given
20 any thought to applying this kind of population projection
21 technique to the construction operation itself?

22 A No sir, we have not dealt
23 with the construction operation. We've assumed isolation
24 relative to pipeline construction crews.

25 Q And I take it you've again
26 assumed no secondary employment effect from the construc-
27 tion phase?

28 A That's correct.

29 Q While you've assumed
30 that, does your experience lead you to question that

Lainsbury, Dusel, Dalby
Cross-Exam by Goudge

1 assumption, if there's going to be, for example, a
2 northern purchasing policy during the construction
3 phase?

4 A There's obviously going
5 to be some induced employment which is going to depend
6 upon that kind of policy. I don't think the magnitude
7 is going to be significant in terms of the intent of
8 these population projections, which is really to give
9 a handle to the municipal people in extrapolating capital
10 cost requirements.

11 Q And again, your population
12 figures build in no factor to take account of possible
13 looping of this pipeline or building of an oil line?

14 A I don't believe that
15 those activities were included in the source material
16 that we used from the application.

17 THE COMMISSIONER: No, they
18 weren't.

19 A Thank you.

20 MR. GOUDGE: Now, Mr. Dusel,
21 let me ask you one or two questions about your evidence
22 if I may sir. You at the beginning of your evidence
23 say something about the dollar costs and the calculations
24 that you make regarding those dollar costs. At the bottom
25 of page one you say that cost estimates were adjusted
26 to 1975 dollars and that you did this by increasing
27 all estimates made before and including 1972 by 7 percent
28 a year, those of 1973 and onwards by 15 percent a year.

29 I take it, you as well dis-
30

Lainsbury, Dusel, Dalby
Cross-Exam by Goudge

1
2 counted those costs estimated to be made after 1975
3 to produce 1975 figures for those?

4 WITNESS DUSEL: Yes sir.

5 There are two separate processes involved here. The
6 -- you should appreciate that we dealt with the cost
7 estimates for capital facilities that were prepared
8 by a number of different people, namely the consultants
9 for the different communities and we escalated those
10 estimates of cost from the year in which they were
11 made, to 1975 according to this procedure. Then, when
12 we looked at the time frame in which capital costs
13 would be incurred, we took -- we brought all of those
14 capital costs back to the base year of 1975 by discounting
15 them for the intervening period at 10 percent per
16 year so that all capital costs are compared on the basis
17 of their present value in 1975, discounted from the
18 year in which they will occur at 10 percent per year.

19 Q Yes. Now sir, yesterday
20 you said in passing that you had some experience at
21 Fort McMurray.

22 A Yes.

23 Q Could you reiterate
24 what that was? How you were involved with the Fort
25 McMurray construction process?

26 A I was involved in the --
27 well, I did the preliminary engineering for the water
28 and sewer system for the town of Fort McMurray in 1962.
29 This was built in 1963 at which time, the Great Canadian
30 Oilsands Plant was just beginning to be developed.

Lainsbury, Dusel, Dalby
Cross-Exam by Goudge

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2 Through the period 1964 to
3 1968, this is the period when the plant was being
4 built and the operation and maintenance personnel were
5 being brought in, the town of Fort McMurray experienced
6 a population growth from 1,100 in 1963 to approximately
7 7,000 in 1968. My involvement was to provide first,
8 the forward planning for providing infrastructure for
9 that kind of growth and secondly, to provide the detailed
10 engineering and the construction supervision that went
11 with the implementation of that planning and by 1968,
12 all of that infrastructure was completed adequate to
13 serve a population of 7,000.

14 Q Yes. Now, you spoke
15 yesterday of a local inflation rate of 15 to 30 percent
16 through that period of time.

17 A No, this is the more
18 recent experience. The 15 to 30 percent is the recent
19 experience which we are encountering with the advent
20 of the Syncrude project.

21 Q More recent meaning what
22 in time?

23 A Well, current experience.
24 Prior to the time that the Syncrude project actually
25 commenced construction in the field there was a certain
26 level of construction costs which the town of Fort
27 McMurray was experiencing in developing their water
28 supply and sewage system extensions. Coincident with
29 the start of construction on the Syncrude project because
30 of the decrease in availability of labour, materials and

Lainsbury, Dusel, Dalby
Cross-Exam by Goudge.

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services, the costs have shown an escalation which we attribute to a local factor in the order of 15 to 30 percent.

Q Was that experience a repetition of a similar phenomenon that occurred during the earlier construction phase?

A Yes. In qualitative terms it was, quantitatively this escalation is more severe than that which we encountered in 1963 and 1964.

Q What do you attribute that difference to?

A I'm not sure that I can explain the difference other than the Syncrude project appears to be bigger. I'm not really sure that I can explain it.

Lainsbury, Dusel, Dalby
Cross-Exam by Goudge

1 Q Is the inflation rate
2 being experienced only in the construction sector, or
3 is it being experienced locally in that kind of quantity
4 across-the-board in Fort McMurray?

5 A You mean in price of
6 food and rents and so on?

7 Q Yes.

8 A I don't think that I can
9 answer that question. My experience, of course, is
10 pretty exclusively with the construction field.

11 Q Now, there is no doubt
12 that the costs that you describe being necessitated
13 to expand the infrastructure in the communities you
14 spoke of are going to be substantial, and I take it,
15 do you have a view as to whether those costs will
16 themselves be inflationary?

17 A Well, in my view there
18 is very little doubt that there will be inflationary
19 aspects of those costs. I think the last point that
20 I made in my closing summary is significant, and that
21 is that those capital costs which are going to be
22 incurred after construction starts on the pipeline
23 can, in my opinion, almost without doubt be expected
24 to experience that local inflationary factor, and
25 whether that will be similar to Fort McMurray in the
26 order of 15 to 30%, I am not sure. If I had to guess,
27 I would say, "Yes."

28 Q And I take it in Fort
29 McMurray those costs have simply been costs to be lived
30 with. There has been no governmental step taken nor

Lainsbury, Dusel, Dalby
Cross-Exam by Goudge

1 industry step taken to ameliorate those costs.

2 A no.

3 Q Are there, in your
4 experience in Fort McMurray, or in your estimation
5 for the communities you've examined, would you anticipate
6 more than local inflation? That is for example absolute
7 shortages and bottle-necks in connection with the
8 construction of these facilities?

9 A Absolutely. Again, drawing
10 on the Fort McMurray experience, in about 1965 and
11 1966 we experienced acute shortages of housing and
12 I mentioned in my direct testimony that we had to
13 find solutions to the immediate problem of shortages,
14 such as putting in mobile homes on standard conventional
15 residential lots. I think this is one of the things
16 that you're quite likely to experience here. I
17 think there were other shortages that were experienced
18 in Fort McMurray, material goods and services and so
19 on, although I wouldn't want to -- I'm not really
20 qualified to speak on those aspects.

21 Q Mr. Lainsbury, did you
22 want to add something to that?

23 WITNESS LAINSBURY: John is
24 just making a note for me here that shortages of
25 labor and manpower generally will occur, but that is
26 reflected in the local inflation of costs.

27 Q Yes. Now, Mr. Dalby,
28 finally moving to you, is it fair for me to say that
29 the costing structure that would result in any northern
30 delivery system depends on a whole variety of assumptions,

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1 a number of which you've given us.

2 WITNESS DALBY: That is correct.

3 Q Simple but perhaps true.

4 Now, in developing your Tables 4.2 and 4.3, you've
5 made in each case a number of assumptions.

6 A We've largely taken
7 assumptions from the CACPL report and made certain
8 assumptions for Table 4.2 and added one or two basic
9 assumptions to Table 4.3, the most important of which
10 was a change in the load saturation from 50% to 85%.

11 Q What's the other assump-
12 tion?

13 A The other assumption
14 was taken, I made reference to the other assumption,
15 was that Table 4.2 is based on a 1980 point in time.

16 Q Oh, I see.

17 A Where Table 4.3 is based
18 on a 1984 point in time, so we said we have to reflect
19 this, we have to do something to the cost of fuel
20 oil, and I believe it was my suggestion to say that,
21 "Well, just take 10%, not because it's a magic
22 figure or a figure that we've researched, because I
23 just want to show, I want to illustrate how you can
24 have a situation running in two directions. One that
25 with time you have buildup of load which results in
26 lower cost for natural gas; and on the other hand you
27 could have increases in the cost of fuel oil."

28 I just wanted to show how
29 those two factors are running in different directions
30 to show greater economic benefit for natural gas service

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1 for these communities with time.

2 Q Now, dealing with your
3 first basic assumption, that's the load, you choose
4 85% as opposed to CAGSL's 50%.

5 A Yes sir.

6 Q You say you based that
7 on your experience as a distribution man in Alberta,
8 is that so?

9 A Yes sir.

10 Q Both those figures, I
11 take it, are estimates of what will be picked up on
12 a voluntary basis by consumers using economic
13 decisions. Is that right?

14 A Well, I feel, just to
15 answer your question, and here is a little piece that
16 I had left out of my evidence but I'll give it to
17 you now because the question is here, we feel quite
18 confident in suggesting that along the Mackenzie
19 Valley 80 to 90% of the potential heating load
20 customers could be converted to using natural gas
21 in the second or third year of operation of a natural
22 gas system, provided

23 (1) natural gas was priced lower than competitive
24 fuels:

25 (2) the distribution company is efficient and has
26 developed a good customer information, customer
27 relations, customer service program;

28 (3) some form of assistance is provided to help
29 finance converting costs and the cost of new-buring
30 gas-buring equipment; and

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1 (4) assurance is given to potential customers that
2 natural gas would continue to be competitive.

3 I think on that basis you
4 can sign up a load very quickly because in some of
5 these communities there could be quite substantial
6 savings over fuel oil.

7 Q Yes, and you put those
8 assumptions together, basically I characterize them
9 as a good marketing policy, and you were confident
10 that the 85% would be reached very early in the game.

11 A I can use, I think it's
12 something like 300 communities that I can refer to.
13 I was involved with Northwestern Utilities and
14 Canadian Western Natural Gas for a period of 20
15 years, and when I joined the company there was just
16 a handful of communities served, and I was involved
17 during the period of say 10 years, 10-12 years when
18 there was a growth of the gas development in Alberta
19 and as a result of this gas became available closer
20 and closer to more communities, and I was involved
21 intimately probably with 100 communities and 100
22 franchises, and familiar with another 200. Our experience
23 has been that originally we would say, it takes five
24 years to get 100% saturation.

25 Well, in many areas or cases
26 we got over 100% saturation in say three or four years.
27 The buildup in load was very good, and I could see this
28 being repeated here. The evidence is pretty dramatic,
29 not only in Alberta but in other parts of the world.
30 We look at a situation say like Winnipeg, where they

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converted to natural gas. It's a major centre and it was a little slower in saturation. I think some of the people appearing before this Inquiry might suggest that it would take longer to get load buildup, but I think they were looking at the experience in Eastern Canada and the situation there was quite different than the situation which prevailed here, if natural gas became available fairly close to the communities.

Q What was different?

A Pardon me?

Q What was different in Eastern Canada?

A Well, the difference is the amount of gas that was available for eastern markets was limited. Every time an export permit came up, the utilities would take the position of Alberta first, and I was a part of that, and we --

Q We've seen the bumper stickers, sir.

A Pardon me?

Q We in Toronto have seen the bumper stickers.

A I didn't have any of the bumper stickers, but this is something that started 20 years ago. It's not new, and it's something that I would suggest is quite applicable for Northern Canada, that you don't want to find a situation 30 years down the road where you have to divvy up gas supplies, that the northern gas supply requirements come

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1 first.

2 Q I'll be coming to that
3 in a minute. One of the assumptions you make, though,
4 in getting your early conversion rate to an 85% load
5 is assistance in the cost of converting.

6 A Assistance where?

7 Q Assistance to the
8 individual consumer.

9 A Right.

10 Q That was, I think, your
11 third assumption. Do you have any estimate as to the
12 cost of converting to gas for an individual consumer?

13 A Depends on what the
14 consumer has to convert. If he has -- normally you'd
15 find that consumers will put in new equipment and
16 you can arrange -- there's various schemes you can
17 arrange. These are some of the little things that
18 have to be considered. They would be big at the time
19 if you wait too long, but little in consideration of
20 the front end. You can get banks to finance new
21 equipment because people would want to put in new
22 equipment. You could get banks to finance new
23 equipment, or you can get the utility company to
24 finance new equipment and add a price onto the utility
25 bill so it's amortized over a period of time on the
26 utility bill. The size of the cost will vary depending
27 upon the size of the building, whether the --
28
29
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Lainsbury, Dusel, Dalby
Cross-Exam by Goudge

1 Q Take the average private
2 home north of sixty.

3 A I haven't got that figure.
4 There used to be a figure but it is an old one -- \$300.
5 But I wouldn't suggest a figure to you because --

6 Q What is it in northern
7 Alberta?

8 A I don't know what it is
9 today. Okay, let's look at a figure. Are you looking
10 at a new furnace?

11 Q Take a complete conversion
12 for a private home in northern Alberta given the
13 distribution facilities that you were working with
14 when you were in the industry.

15 A It's kind of difficult
16 because some oil burning equipment can be converted to
17 natural gas and others can't. I would suggest that in
18 the majority of cases in the north, you wouldn't want
19 to convert the oil burners to natural gas so you would
20 have new equipment put in. \$500 to \$1000 as would be a
21 minimum price I would suggest. But I hate giving
22 figures that I have not researched.

23 Q I see. Well then I
24 won't press you then sir.

25 A The economics of natural
26 gas in total looking at the kind of savings that we
27 would anticipate that this would not be a major hurdle.
28 It would be part of the planning but not a major hurdle.
29 It won't make the difference between whether natural
30 gas would be economic or not.

Lainsbury, Dusel, Dalby
Cross-Exam by Goudge

1 Q Although you assume that
2 the individual will have to pay the cost either through
3 loan repayments or through --

4 A Well I have seen many
5 situations where natural gas has been put in at relatively
6 speaking fairly close to competitive fuels and people
7 have put in natural gas because of the convenience,
8 safety, dependability, financed the conversion with
9 their own banks. The utility company found some
10 customers that couldn't manage the financing and other
11 cases that didn't care to and the utilities for a period
12 did financing.

13 It was quite common in eastern
14 Canada for utilities to get involved in financing load
15 building. That again comes back to the load growth
16 situation. In Winnipeg for example -- and I knew the
17 people who were working there -- they just couldn't
18 work fast enough. They couldn't put systems in quickly
19 enough. They were financing furnaces, whole installations
20 and with gas price relationships, less favorable than
21 what we are looking at here today.

22 Q Now there is another type
23 of conversion cost I suggest to you and it relates to
24 this. We have been told that a large measure of the
25 transportation economy in the north is based on the
26 transportation bulk oil cargo down the river. If power --

27 MR. HOLLINGWORTH: Will you
28 excuse me? Could you be more precise since if in fact we were
29 told, then, I believe it was by Mr. Scott who in cross-examination of
30 the Foothills panel--

A I can tell him what it is.

Lainsbury, Dusel, Dalby
Cross-Exam by Goudge

1 It's crude oil or bunker C from Norman Wells to Inuvik
2 to supply energy for power.

3 Q We have just been told
4 sir about bulk oil cargoes and their effect on barging.
5 Let me ask you Mr. Dalby whether your costing for
6 gas supplies to communities has taken a look at that
7 in this sense. I take it you assume that there will
8 be conversion of power facilities from bulk oil or
9 diesel to natural gas.

10 A Yes sir.

11 Q I take it the consequence
12 of that is that there'll be no longer a need to barge
13 that liquid hydrocarbon to those power facilities.

14 A I will say that the
15 refinery at Norman Wells will have a problem of how
16 it is going to find a market for its bunker C. So
17 it might be barged -- could be barged beyond Inuvik
18 and into some mining operation on the northern coast
19 of Canada, along the Arctic coast.

20 Q Let me put it another
21 way. I take it you've assumed that no reduction in
22 bulk oil transportation on the river with consequent
23 effects on transportation rates?

24 A We have not reflected
25 in the economics of natural gas service any impact on
26 the cost of transporting oil in northern Canada.

27 Q Isn't there likely to
28 be an impact on the amount of oil transported and hence
29 an impact on the transportation rates on the Mackenzie
30 River?

Lainsbury, Dusel, Dalby
Cross-Exam by Goudge

1 A Well I really don't know.
2 As I said, if we knew of no other factor -- if we just
3 say that we're going to convert the power plant in
4 Inuvik to natural gas and let Norman Wells eat the
5 bunker C, that you'll have lesser revenue from transporta-
6 tion of that particular product. But knowing an oil
7 company, it will find a market for it and I would guess
8 that the market will be there. So it hasn't been
9 included in the economics but we didn't include it
0 or exclude it for any deliberate reason.

11 Q Now, the Commissioner
12 asked you this morning about the assumptions you had
13 made and the consequences you saw flowing from a rise
14 to market value if I can put it that way of the price
15 of natural gas.

16 A Yes sir.

17 Q Let me ask you whether I
18 understand it correctly. Is it so that as the price
19 of natural gas rises from its artificially low price
20 to market value the comparison between gas prices and
21 oil prices becomes less favorable to gas?

22 A The prices increase?

23 Q As the price of gas increases
24 to market value, the comparison between gas and oil
25 is less favorable to gas?

26 A That is correct. That
27 is correct. Yes.

28 Q Now, in your calculations
29 in Table 4.2 and 4.3 have you assumed that the transfer
30 to market value that you say is taking place now over

Lainsbury, Dusel, Dalby
Cross-Exam by Goudge

1 the next few years has already taken place?

2 A I can indicate to you
3 that I think that the decision at the time was made was
4 more than the correct decision. I think it's page 37
5 of the CAGPL September '74 report. You will see on
6 Table 4.4 that they've got a delivered cost of gas.
7 They have got a 32¢ per mcf case and a \$1 per mcf case.
8 Now back at the time when this was looked at if anyone
9 was suggesting that we should \$1 per mcf case, they
10 could say, "Well gee aren't you kind of playing a little
11 heavy on the price of gas and making the gas look less
12 economic for northern communities than would otherwise
13 be the case? Wouldn't it be more sensible to take the
14 32¢ or something between that. But we were drawing
15 our information, our data, from the CAGPL report and
16 we took the higher number -- the \$1.00 per mcf to
17 illustrate that we weren't trying to give a picture
18 that would show that natural gas, in its best possible
19 light -- natural gas service -- we took the highest
20 number that was available at that particular point in
21 time.

22 Then on page 39, to offset
23 that, for Table 4.2 there is three levels of fuel prices
24 that were used: a low estimate, a high estimate and
25 then there is the word used "medium" -- medium estimate.
26 For the work on Table 4.2, we took this medium estimate
27 and we thought that that would be an appropriate
28 direction to go.

29 So, you've got to recognize
30 that we were drawing from figures here. If you were

Lainsbury, Dusel, Dalby
Cross-Exam by Goudge

1 drawing from new figures today, you would look at what
2 the field price projection is going to be and it is
3 going to be substantially higher. You would look at
4 the costs of transporting that product to markets which
5 would be substantially higher. You get a different
6 set of answers. But I say it's not going to give you
7 a much different answer of whether or not these
8 communities can be served economically with natural
9 gas.

10 What we will find I believe
11 is that the size of the saving to northern communities
12 is likely to be higher than what is shown in these
13 numbers.

14 Q You say that largely
15 because of the inflating cost of constructing the
16 trunkline?

17 A No, largely because of
18 the assumption that 50% of the load would be connected
19 instead of 100%. Instead of 100% or 85% or 90%.

20 Q Now, on Table 4.3, your
21 community pricing system shows a price made up of
22 four parts: wellhead costs, main tariff, lateral
23 tariff and distribution tariff.

24 A That is correct.

25 Q What percentages do
26 each of those make up of the total?

27 A I can't tell you that but
28 all the data is taken from the CAGPL report from this
29 report and that information can be drawn from here for
30 each of the communities. I just couldn't give you an

Lainsbury, Busel, Dalby
Cross-Exam by Goudge

1 to that. If it's important --

2 Q Do you use the same
3 percentages as appear in the CAGPL document you're
4 holding?

5 A The numbers here for
6 the cost of systems were the numbers taken from the
7 CAGPL report.

8 Q Now --

9 A As we mentioned, we
10 took the wellhead cost price which we mentioned, the
11 tariffs are as outlined in various hearings. The
12 lateral tariff and the distribution tariff were developed
13 using economics from this report.

14 Q Now yesterday you said
15 in the fifth of your recommendations on page seven of
16 your evidence that there are a number of alternatives
17 for the management and ownership of Mackenzie Valley
18 natural gas distribution systems. The two you recited
19 were municipal ownership and investor ownership. Are
20 those the two main categories that you see as being
21 available?

22 A Well the government could
23 set up another agency to distribute natural gas to
24 northern Canada. That's the third one.

25 Q Do you have any views on
26 the relative merits of each of those three based on
27 your experience in Alberta.

28 A I sure do but I don't
29 think my views are really appropriate because I think
30 that from my experience it's only logical where my views

Lainsbury, Dusel, Dalby
Cross-Exam by Goudge

1 will be. I believe very strongly that the private
2 sector can do things cheaper than government. Whether
3 that's true or not --
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Lainsbury, Dusel, Dalby
Cross-Exam by Goudge

1 Q That's true, of
2 everything I take it.

3 A That remains to be
4 proven , but what I would suggest is that . and what
5 I was suggesting in my evidence, that it's very import-
6 ant that we look at the alternatives. It's very import-
7 ant that the people have views that municipal ownership
8 or government -- another government company can be
9 formed to do this job and do it ^{the} most effective and
10 efficient way for northern Canada. We should lay on
11 the table on a rational basis what we believe the
12 situation to be, those that want to invest, have them
13 come forward with their programmes, but have the people
14 in northern Canada educated and have the ability to
15 make the best solution for their long term needs.

16 If I was the dictator, I'm
17 not sure whether the answer would be the way it should
18 be.

19 Q But you're sure of the
20 way the answer would be.

21 A Yes.

22 Q Now, Mr. --

23 MR. SIGLER: I take it you are
24 not the Commissioner.

25 A No comment.

26 MR. GOUDGE: While it seems to some
27 on the staff ^{that} the Commissioner is a dictator I don't think
28 that's true.

29 THE COMMISSIONER: Well, your
30 point is that notwithstanding whatever ideological

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One of the things that has interested me about the debate concerning the local supply of gas in the north is that it's been conducted on the basis of, in part at least, the comparison of equivalent oil costs to equivalent gas costs. Built into that, I take it, is some kind of implicit assumption

Lainsbury, Dusel, Dalby
Cross-Exam by Goudge

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2 about should the switch be made to gas, continuing
3 supplies of gas to the north. That is, it assumes
4 that should the conversion be made, gas will continue
5 to be available into the indefinite future to northern
6 communities from northern sources. Is that right?

7 A That's right, yes.

8 Q I take it you'd agree
9 with me as a man experienced in the transmission of
10 gas that if that assumption proved inaccurate that
11 it is unlikely that gas would ever be transmitted from
12 outside the Territories to supply northern communities,
13 the distances are too far to make it economic?

14 A Yes, and I don't think
15 there would be any available because before that happens
16 Ontario's freezing in the dark to start with and I
17 think Alberta is probably long on its way too.

18 We're looking -- you know,
19 you're looking into the area that we can legitimately
20 look into. I have great faith that in the year -- in the
21 2000's that there is lots of energy in the world surface,
22 there's lots of energy, but our technology is a way
23 behind and our ability to manage the energy is way
24 behind what was placed here and I think that the Lord
25 put a lot of energy in the world for us, some that we
26 can extract easily, that's to give us a boost. Then he
27 made the rest a little difficult and I can't really
28 get concerned about the long-term needs for energy
29 because there's one big ball of fire called solar
30 energy and I can guarantee you that in the year 4596

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Cross-Exam by Goudge

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2 that that will be used to serve the world in one form
3 or another.

4 Q Well, before we get to
5 that point sir --

6 A You asked a very good
7 question, my answer was --

8 Q I got a rather longer
9 range answer that I wanted.

10 Let me ask you Mr. Dalby,
11 whether it makes any sense in your view, to consider
12 the prospect of identifying reserves in the north as
13 guaranteed longrun supply of gas for the north?

14 A It makes a great deal
15 of sense and I mentioned that probably on three occasions
16 in different ways, that look to Alberta--

17 THE COMMISSIONER: Look to
18 Alberta first.

19 A Alberta first.

20 THE COMMISSIONER: Right.

21 A And northern Canada first
22 is -- and I come from Alberta and I'll argue northern
23 Canada first. It's served Alberta very well.

24 MR. GOUDGE: Let me ask you
25 in that connection whether -- and I simply don't know,
26 I should know. Alberta's policy that you're referring
27 to goes beyond, I take it, the rebate of 70 million
28 dollars that you spoke about?

29 A Okay, let me just give
30 you a little background. When TransCanada Pipelines,

Lainsbury, Dusel, Dalby
Cross-Exam by Goudge

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2 who negotiated with purchasers to buy gas, they negotiated
3 contracts with purchasers, the Energy Resources Conserva-
4 tion Board had hearings with respect to the export of
5 natural gas. I was working with the utilities during
6 this period and at this time, the then President, I
7 believe it was, of the company, took the position before
8 the -- publically took the position that the utility
9 companies would not support the export of natural gas
10 from the province of Alberta until there was a guarantee
11 for the Alberta consumer and the contracts were -- in
12 the contracts was provided a provision that Alberta
13 would have first call on the natural gas that was to
14 be exported and when these contracts were made, some
15 years ago, the producers recognized that this was a
16 requirement to getting natural gas developed for export
17 but those, -- particularly that particular agreement
18 has come to Alberta's advantage in many ways. The
19 company itself hasn't had to develop gas supplies,
20 the utility companies, they've relied on the incentives
21 that were provided for export to develop gas supplies
22 that they have first call on and I would certainly have
23 no problems in seeing northerners ask for the same and
24 I think if I was the producer of gas supply or the
25 transportation company, I would only be waiting as to
26 when this would come into the negotiations and I think
27 if there is an agreement entered into that didn't have
28 the protection of northern long-term requirements
29 -- reasonable requirements met, it wouldn't be a good
30 agreement for either party.

Lainsbury, Dusel, Dalby
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1 Q Thank you sir, those
2 are all the questions I have of this panel sir.

3 THE COMMISSIONER: Well, thank
4 you very much Mr. Lainsbury, Mr. Dusel and Mr. Dalby,
5 we all appreciate your sharing your knowledge and your
6 experience with us and it's been most helpful. I think
7 that we still have to hear from Mr. Blair. What do
8 you and Mr. Hollingworth think? Should we proceed
9 this afternoon with Mr. Blair's evidence or --

10 (WITNESSES ASIDE)

11 MR. GOUDGE: I think the
12 general consensus sir, Mr. Hollingworth indicates that
13 he's in our hands and Mr. Blair's content to appear
14 either now or after lunch. I think I heard Mr. Bayly
15 indicate what I think would be the general view of
16 counsel, if it suits you sir, that we could allow Mr.
17 -- we would go on now and have Mr. Blair give his
18 evidence now and --

19 THE COMMISSIONER: Is that
20 all right with you?

21 MR. SIGLER: Yes, we could
22 have our cross-examination afterwards.

23 THE COMMISSIONER: Right.

24 MR. STEEVES: I didn't hear
25 all of that and Mr. Goudge didn't speak to me, did I
26 hear you mention an hour?

27 MR. GOUDGE: No, I --

28 THE COMMISSIONER: What Mr.
29 Goudge said was that Mr. Blair should give his evidence
30 now and that's all right with me, but if you gentlemen

R. Blair
In Chief

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1 want to wait until this afternoon, that's all right
2 with me too.

3 MR. STEEVES: Well, it's
4 quarter to one and how long is Mr. Blair going to be?

5 MR. GOUDGE: Mr. Hollingworth
6 indicated that it would be 10 or 15 minutes sir.

7 THE COMMISSIONER: Well, why
8 don't we hear Mr. Blair's evidence in chief now and then
9 if it turns out, cross-examination will be lengthy,
10 we'll have to postpone that until after lunch. Okay?
11 Okay, Mr. Blair?

12 ROBERT BLAIR, resumed:

13 MR. STEEVES: I wonder if
14 Mr. Hollingworth would distribute copies of Mr. Blair's
15 evidence.

16 MR. HOLLINGWORTH: I can't
17 do that yet sir, it's being typed at this very moment,
18 but there have been some delays.

19 MR. STEEVES: Why so much in
20 advance?

21 THE COMMISSIONER: Well, --

22 MR. GOUDGE: I wonder if it
23 might not be better then sir, to do it after lunch?

24 THE COMMISSIONER: Well,
25 Mr. Blair is here and let's hear it now because then
26 Mr. Steeves can consider it over lunch if he doesn't
27 get the typed copy until he's well into his --

28 MR. GOUDGE: His parfait.

29 THE COMMISSIONER: -- his
30 parfait.

R. Blair
In Chief

1 MR. SIGLER: Perhaps he's
2 afraid it'll melt over lunch.

3 THE COMMISSIONER: All right,
4 well let's carry on.

5 DIRECT EXAMINATION BY MR. HOLLINGWORTH:
6 MR. HOLLINGWORTH: Well, Mr.

7 Blair is well known to the Inquiry sir, I'm sure he
8 doesn't need any introduction to you or any people in
9 the hall and I'd ask him to proceed with his statement.

10 THE COMMISSIONER: All right
11 carry on sir, please.

12 WITNESS BLAIR: Appreciating
13 this chance to appear before your Inquiry again, it
14 seems to us that it's up to the applicants among other
15 things, to keep the Inquiry posted as to when a Mackenzie
16 Valley pipeline will probably be built, recognizing
17 the term of reference of the Inquiry is so completely
18 built around the prospect of such a project, it occurs
19 to us as important to keep a realistic flow of information
20 before you on what may really be the timing of such
21 a project and it's in that direction that I would like
22 to add some very current views to you today.

23 We're particularly anxious
24 to do so because I think there have been some serious
25 distortions recently. Some of the distortions which
26 have struck us as particularly bad and needing comment
27 are suggestions which have been made, for one, that the
28 Foothills group, Foothills, Alberta Gas Trunk and Westcoast,
29 in their concurrent work, in their known concurrent
30 work on the Alaskan Highway route are providing now
a higher priority to that project than to the Mackenzie
valley pipeline project.

A second point that requires correction, in our view, is current suggestion that if the Mackenzie Valley Pipeline, which is the subject of this Inquiry, should lose the chance to move Alaskan gas, it will be built later, than if it moves Alaskan gas. We believe exactly the opposite to be true. We believe that the result would be that the Mackenzie Valley Pipeline would be built sooner, and we represent probably the one step which would do the most to expedite the Mackenzie Valley Pipeline, would be the dropping of a proposal for an Alaskan leg.

A third representation that is receiving a good deal of publicity these days is that the Polar Pipeline proposals will supplant the Mackenzie Valley Pipeline proposals, as the main

R. Blair
In Chief

1 Canadian gas transmission projects. We believe that
2 that suggestion is completely wrong, according to the
3 best information available, that the Polar Pipeline
4 plans are well back and indefinite compared to the
5 Mackenzie Valley Pipeline plans, and that the reality
6 of the situation is that it is this project which
7 has much the greater impetus behind it for early
8 accomplishment by industry.

9 I'd like next to give for your
10 information our current assessment of the factual case
11 for the proposal that there should be a Mackenzie Valley
12 Pipeline.

13 On this basis, first that
14 Eastern Canada will become in the 1980s relatively more
15 dependent on natural gas for its energy supplies as
16 its domestic crude oil production -- as Canada's
17 domestic potential crude oil production declines.

18 Secondly, that except for
19 Alberta, the next available source of gas for Eastern
20 Canadian markets will be clearly the Mackenzie Delta.
21 So that connection of the delta will be important for
22 two reasons: For its own sake, as initially a small
23 10 to 20% source of Canadian supply, but a growing
24 source of Canadian supply; and also to demonstrate
25 that Alberta's responsibilities to satisfy the eastward
26 Canadian provinces are neither endless nor total
27 responsibilities, which demonstration we believe will
28 make it more realistic for Alberta to continue to
29 maintain to meet the full growth of those markets
30 in the meantime.

R. Blair
In Chief

1 We represent that there are
2 already enough gas pools identified in the delta, in
3 the Mackenzie Delta, to justify their pipeline
4 connection to the system serving Canadian markets.
5 I said that very deliberately to my own company's
6 Annual Meeting this year, which is my final course of
7 accountability in a place where we don't make guesses
8 or speak carelessly. These gas pools that have been
9 identified in the delta will become fully developed
10 by further drilling, as and when a connection receives
11 approval. We claim and represent that to be a matter
12 of fact and not of needing dispute.

13 Whether or not there may also
14 be a huge potential of additional gas supply in the
15 Mackenzie Delta-Beaufort Basin, as conforming to the
16 Dome Petroleum expectations, there is certainly some
17 potential there for identification of additional
18 pools beyond those already discovered. So the sizing
19 of the connection can be anticipatory to some degree,
20 such as is a 42-inch diameter anticipatory.

21 So, sir, we represent that
22 this new Canadian gas supply source is known to exist,
23 and believed to be of advantage to Canada for its
24 connection, and that its most natural economic route
25 continues to be through the long-established transporta-
26 tion corridor, the Mackenzie Valley.

27 We think we almost know that
28 this gas will flow by pipeline in due course, and
29 only if there are either terribly serious and protracted
30 opposition to the Mackenzie Valley route or if there

R. Blair
In Chief

1 serious future disappointments in drilling up the
2 Mackenzie Delta gas pools that have already been
3 discovered will as a fallback position the same gas
4 flow along the Dempster Highway.

5 There are, so far as we are
6 aware, three main pressures being applied to see this
7 Mackenzie Valley gas Pipeline installed.

8 (1) Is the normal and predictable commercial pressure
9 of the commitments entered between the two Exxon sub-
10 sidiaries, Humble and Imperial, in the two countries,
11 and Gulf and Shell in Canada, and Arco and SOHIO in
12 Alaska, as sellers, and the utilities as buyers, to
13 sell about 30 trillion cubic feet of Alaskan gas and
14 26 trillion cubic feet of Mackenzie Delta gas to the
15 buying utility companies, of which in total all but
16 4 trillion cubic feet has been committed to United
17 States markets. These commitments have involved very
18 large prepayments and I think it's only normal to
19 observe the efforts in these years to accomplish the
20 most direct delivery possible to the markets intended,
21 and as soon as possible. Much of what the rest of us
22 have been observing is the continuation of that effort.

23 (2) The second force is the less urgent but still
24 anxious interest of the Ontario Utility Companies
25 to secure some access to the new Mackenzie Delta
26 gas supply for their requirements going into the
27 1980s. This interest does become complicated by the
28 variety of differences between the Canadian companies
29 which happen to include ours, who believe that most
30 or all of the delta gas may be needed ultimately in

R. Blair
In Chief

1 Canadian markets, and the remaining companies in the
2 Canadian Arctic Gas Pipeline group who, by their natural
3 United States utility self-interest, or by their
4 producer obligations under gas sale contracts, or by
5 their differing assessments of Canadian needs, are
6 dedicated to the same gas moving as expeditiously and
7 completely as possible to United States markets.

8 I think it's relevant there to recognize that the
9 commitment, the contractual commitment of Mackenzie
10 Delta gas to United States markets within the CAGPL
11 group at this stage is in quantities of about three
12 times what has been identified there so far.

13 (3) The third pressure is, I feel, a growing sense
14 of a Canadian national purpose to get these, all the
15 hydrocarbon fuel reserves which it can reach into
16 in readiness as an alternative to crude oil imports,
17 to the point of overriding contracts and prepayments,
18 if necessary. This sense of purpose which I can only
19 report on in a way of judgment, listening and reading
20 and talking, is a sense of purpose which balances
21 naturally, and has to, with other national purposes; but
22 we feel it does have a certain amount of public support
23 now, and could become very definite if there is another
24 major economic siege from the OPEC oil exporters.

25 So being practical, we see
26 these three pressures to exist, and we suppose they
27 probably will continue to have considerable inter-
28 relationship with the future decisions of this
29 Inquiry, since they each would bear on timing if a
30 Mackenzie Valley gas Pipeline should go ahead shortly.

R. Blair
In Chief

1 Next, how shortly might that
2 be? As trying to be practical as well as an admitted
3 perennial optimist about connecting new gas supply
4 sources in Western Canada, what we read first produc-
5 tion from the delta to be possible by the end of
6 1982. That would require final decisions on
7 sponsorship, routes, tariffs, exports, relationships
8 of residents and all the other factors by 1978 or 1979.

9 To meet that particular
10 schedule does appear as tough to us right now as it
11 is in our opinion also desirable, and for these
12 reasons. First, the obvious deep and present differences
13 along the populations of the Northwest Territories
14 about how soon and how at all such a huge civil
15 engineering project can receive acquiescence in
16 respect to its long-term effects on the sparse popula-
17 tion, but still critically important, resident
18 population. These differences will apparently need
19 some time to clarify yet, and then to resolve, and
20 there has not been good progress at all.

21 Second, there are sufficient
22 legal grounds for a contention, apparently, about
23 land rights to give the runner-ups in any main
24 decisions a second chance for review.

25 Third, while the gas supply
26 shown so far in the delta is large and useful, it is
27 not yet so huge as to clearly deserve national
28 priority to the point of overriding other responsi-
29 bilities. In other words, this connection still needs
30 to be negotiated rather than commanded.

A. Blair
In Chief

1 Fourth, corresponding,
2 exactly matching that last point there is not yet
3 sufficient gas requirement shown by Eastern Canadian
4 markets over and above the predominant and growing
5 supply capacity of Alberta to cause an overriding
6 of delaying influence by any national command.

7 So in summary, we believe that
8 the Mackenzie Valley Pipeline can be authorized by
9 1978 or '79, and can be operational by 1982. Also that
10 it will be tough to hold that schedule. Also that it
11 will be negotiated rather than commanded, but that
12 it will happen.

13 Finally, I'd like to remark
14 on the inter-relation between the Mackenzie Valley
15 Pipeline and an Alcan or Alaskan Highway project
16 because much is being said about the influence that
17 one may have on the other, and I think some interpreta-
18 tion of the situation must be deserving to your hearing.

19 I can't expect to be taken
20 as non-partisan, but I will try to be dry and fair in
21 this interpretation.

22 If in the meantime, while the
23 Mackenzie Valley Pipeline is being negotiated, there
24 should be a start on Alaskan Highway gas transmission
25 pipeline, I believe that these would be the real
26 effects on the Mackenzie Valley Pipeline. By taking
27 care of the Alaskan gas connection, the Alaskan Highway
28 line would remove several of the worst problems of the
29 Mackenzie Valley Pipeline contention. It would remove
30 the cross-delta environmental problems. It would

R. Blair
In Chief

1 remove the super size problem. It would remove the
2 opposition of western governments in Canada, and it
3 would remove the element of United States ownership
4 control from the contention. Those issues would no
5 longer exist in respect of the Mackenzie Valley
6 Pipeline.

7 I represent to you seriously
8 that there would thereby be a substantial improvement
9 and acceleration of the design of the decision process
10 for the Mackenzie Valley Pipeline. Of course, if
11 work were started alternatively on the El Paso project
12 all the same results would occur in Canada, also in
13 engineering and economic terms that project would be
14 much inferior in ^{the} United States. If there were an
15 Alaskan Highway pipeline begun in this period, it
16 would mesh with the Mackenzie Valley Pipeline in taking
17 up overheads and starting to show financial
18 results. Of course, logically, the converse of this
19 point would be that if both were to be built at
20 exactly the same time to move Alaskan and delta gas
21 simultaneously, there could be mutual interference.
22 But we do not expect or intend that that would
23 occur and see no reason at this stage to consider that
24 as a necessary fear.

25 Finally, if there were an
26 Alaskan Highway line commenced in the meantime, it
27 would also provide strictly as a backup a shorter and
28 different route to connect the delta gas by way of
29 the Dempster Highway.
30

Those would be the effects,

R. Blair
In Chief

1 to my information, and all happen to be positive,
2 as I've described them, to the Mackenzie Valley
3 Pipeline. That brings us back to the main position of
4 our company as an applicant before you that it is the
5 Mackenzie Valley line that deserves the highest
6 priority.

7 I apologize in going from one
8 place or hearing to another to have forgotten, if it
9 were something I should have known, that I would have
10 better had this text both written in full and typed
11 before I came. I brought it simply in notes and then
12 we've done our best this morning and it is being
13 -- the notes are being typed out and fleshed out this
14 morning and I think will be available very soon, and
15 I just rest on this opportunity to keep you posted
16 on some views that we thought were topical to your
17 Inquiry.

18 THE COMMISSIONER: Well, thank
19 you, Mr. Blair. I would think we should adjourn for
20 lunch now. I anticipate there will be questions and
21 I think we should eat first.

22 MR. GOUDGE: 2:15, sir?

23 MR. STEEVES: Perhaps, I wonder
24 if my friend could tell us when the notes would be
25 available in script.

26 MR. HOLLINGWORTH: I'll under-
27 take to distribute it over the lunch hour to all who
28 are in the hotel, sir.

29 THE COMMISSIONER: Well, let's
30 not come back till 2:30 then, and that should give us --

R. Elair

(PROCEEDINGS RESUMED PURSUANT TO ADJOURNMENT)

MR. GOUDGE: I think sir the consensus is that we are prepared to begin if it suits you. Mr. Bayly indicates he has one or two preliminary remarks.

MR. BAYLY: Mr. Commissioner I have a couple of preliminary remarks which relate to evidence that I intend to call next week. At the -- maybe Mr. Hollinworth could move over about six inches to one side or other -- At the request of Commission counsel and to ensure that next week will not contain any gaps in between the evidence, I moved up the timing of a panel on education which contains the evidence of a Mr. Dave Button. That evidence has been distributed. We checked with Mr. Button's schedule and he was, with some difficulty, able to ensure that he could appear on Tuesday.

He then requested leave of his superior in Inuvik and he was called in by his superior and by Mr. Ivor Stewart in Inuvik and he was told that he could testify. He's member of the Territorial Government staff, a guidance counsellor at the Inuvik high school.

He was told he could testify as a private citizen if he didn't talk about his job. He was told that he could testify in the form in which the evidence has been distributed if the Commission subpoenaed him and the Commission subpoenaed him only if the executive in Yellowknife had reviewed and had approved of his evidence before it was given.

R. Blair

1 I am somewhat concerned with
2 this sir. I have checked over the evidence. It's based
3 on the man's experience in his job. It doesn't comment
4 on his job or on the government as such. It's directed
5 to his observations on young people in Inuvik and their
6 aspirations and how they are being equipped to fulfill
7 their aspirations. As such, it would be very difficult
8 to divorce his evidence from his job as such and I
9 would submit sir too that the fact that if he were
10 subpoenaed and he had to present his evidence through
11 the screen of the executive in Yellowknife, it would
12 be impossible certainly to bring that as early as Tuesday.
13 It might be impossible or senseless to bring it at all.

14 I am submitting this sir
15 because I think we are in the same position we were in
16 in March 1975 in Aklavik with regard to the Territorial
17 Government employees and their evidence. I don't think
18 we're the only people who have experienced this problem
19 but it has cropped ^{its head} up again and that is my difficulty
20 sir.

21 MR. GOUDGF: Let me say this
22 sir. Early in day in this Inquiry Mr. Scott
23 worked out an order of procedure with the Territorial
24 Government for Territorial employees. It doesn't sound
25 familiar as Mr. Bayly tells us in this case study of
26 the system.

27 I would suggest sir that if
28 the problem is left with us, we will take it up and
29 I frankly would be entirely optimistic that we will be
30 able to solve it.

R. Blair

1 THE COMMISSIONER: Yes, I recall
2 the whole matter being ironed out back in April, 1975
3 with Commissioner Hodgson's office and I really think
4 that there has been a misunderstanding on the part of
5 Mr. Button's immediate superiors. So I will leave it
6 with Mr. Goudge to get in touch with the Territorial
7 Government and let him work it out which I am certain
8 he will do before he gets on the plane tonight.

9 MR. BAYLY: Thank you sir.
10 I will be in touch with Commission counsel on this pro-
11 lem.

12 I also have a message from
13 Mr. Veale who I am informed of this morning's evidence
14 given by Mr. Blair and he has requested the opportunity
15 to cross-examine Mr. Blair on this evidence which of
16 course he is unprepared to do this afternoon.

17 THE COMMISSIONER: Well why
18 don't do this with Mr. Veale? We send him a transcript
19 of the cross-examination today and then ask him to
20 reconsider? But of course if he should on reading the
21 transcript still have questions to ask Mr. Blair, we
22 will try to work out some way of accommodating him.

23 Don't let him give his final
24 verdict till he has read the evidence to be given this
25 afternoon.

26 MR. BAYLY: I find myself in
27 the same position as Mr. Veale and I will read the
28 transcript as well sir.

29 MR. GOUDGE: Well sir, if we
30 could proceed then with such cross-examination as

R. Blair

counsel wish to make now.

MR. HOLLINGWORTH: Just before that proceeds Mr. Commissioner, I have some filings I would like to make at this time. These are made at the request of Commission counsel relating to filings that have made to the National Energy Board.

The first is a document dated July 19, 1976 entitled "Progress Report; Thermal Analyses of Pipe Insulation.

(PROGRESS REPORT -- THERMAL ANALYSES OF PIPE INSULATION. E.B.A. ENGINEERING CONSULTANT LIMITED, JULY 19, 1976 MARKED EXHIBIT 704)

Another is the document entitled Report on the Proposed Construction of a Gravel work Pad", Milepost 0 to Mile 50 and there doesn't appear to be a date on that sir. I believe it's July, 1976.

("REPORT ON THE PROPOSED CONSTRUCTION OF A GRAVEL WORK PAD SPREAD NO. 1AF", JULY, 1976 MARKED EXHIBIT 705)

Another is a document entitled "Determination of Various Parameters for the Evaluation of Warm-Water Hydrostatic Testing". That's dated July 12, 1976.

("DETERMINATION OF VARIOUS PARAMETERS FOR THE EVALUATION OF WARM-WATER HYDROSTATIC TESTING MARKED EXHIBIT 706)

Lastly is a document entitled "Hydrostatic Test Using Methanol Water Mixture" revised June, 1976.

("HYDROSTATIC TEST USING METHANOL WATER MIXTURE

JUNE, 1967 MARKED EXHIBIT #707)

I'd like to make those Exhibits before the Inquiry sir.

R. Blair
Cross-Exam by Steeves

1 MR. GOUDGE: I take it that
2 concludes that Mr. Hollingworth.

3 MR. HOLLINGWORTH: Thank you,
4 Mr. Goudge. I'm sorry.

5 MR. GOUDGE: Mr. Bayly has
6 indicated that he has no questions at this time.

7 Mrs. MacQuarrie?

8 MRS. MacQUARRIE: I have no
9 questions.

10 MR. GOUDGE: Mr. Sigler?

11 MR. SIGLER: No.

12 MR. GOUDGE: Mr. Steeves?

13 MR. STEEVES: Thank you.

14
15 CROSS-EXAMINATION BY MR. STEEVES:

16 Q Mr. Blair, I'd like you
17 to tell me, please, something about the corporate
18 relationship between your company -- that is A.G.T.L. --
19 and the other principals who are involved with this
20 Northwest system. Could you explain, first of all,
21 who are involved?

22 A The principals in the
23 Northwest Alaskan Highway project at the Northwest
24 Pipeline Company, Westcoast Transmission Limited,
25 the Alberta Gas Trunk Line Company, and Foothills
26 Pipe Lines Ltd., and certain subsidiary companies that
27 will be employed by those/^{four}for the purposes of the
28 Alaskan Highway project.

29 Q And will you explain,
30 please, so I'm sure I understand this correctly,

R. Blair
Cross-Exam by Steeves

1 the relationship between A.G.T.L. and Foothills and
2 Westcoast and Foothills?

3 A Well, I'm
4 hesitating because there is so much that could be said
5 in answer. Do you just mean in terms of ownership?

6 Q I'm sorry. I'll suggest
7 my understanding to you. I understand the position to
8 be this, that Foothills is wholly owned by Westcoast
9 and A.G.T.L.

10 A Yes, that's correct.
11 Foothills is owned, the shareholders of Foothills Pipe
12 Lines Ltd., which is the applicant in this proceeding,
13 are owned entirely by Westcoast Transmission Limited
14 and by Alberta Gas Trunk Line Company Limited. There
15 is another company which will be called Foothills
16 Pipe Lines Yukon Limited, which is intended to be the
17 applicant for the Alaskan Highway project and which is
18 wholly owned by Foothills Pipe Lines Ltd.

19 Q I'm sorry, you say it
20 will be named or does that imply that it's not yet
21 been incorporated?

22 A No, the corporation
23 exists and has existed for some time. The corporation
24 is one of those special Acts -- one of those companies
25 incorporated by special Act of the Parliament of Canada
26 and empowered to construct gas pipelines and to do
27 all the things that are necessary in association with
28 the construction and operation of gas pipelines, and
29 that charter and those powers and objects have existed
in that corporation for some years. I said it as I

R. Blair
Cross-Exam by Steeves

1 did because there is a change of name going through
2 to the name Foothills Pipe Lines Yukon Ltd., and I was
3 informed by the corporate secretary of Foothills yes-
4 terday that she'd had a telephone call during the day
5 which had confirmed that the new name was available
6 to us, but it's not more formal than that so I put
7 it a little bit cautiously to you.

8 I believe it is now called
9 Foothills Pipe Lines Yukon Ltd.

10 Q Was that company, whatever
11 its present name or future name will be, incorporated
12 for the purposes which you've just specified?

13 A Yes, it was incorporated
14 with -- for the purposes which are completely consistent
15 with the project, but if you mean was it incorporated
16 expressly to build that 500 miles in the Yukon Territory,
17 no, by no means, because as I told you it was incorpora-
18 ted many years ago by ^{the} Parliament of Canada.

19 Q O.K.

20 A Long before this project
21 had been designed.

22 Q I want to ask you some
23 questions, please, about the three corporations we've
24 discussed. Mr. Phillips is the president of
25 Westcoast Transmission, is he not?

26 A Yes, he is.

27 Q And he speaks for that
28 corporation and for the group who are developing this
29 Northwest Pipeline system, does he?

30 A Of course.

R. Blair
Cross-Exam by Steeves

Q I beg your pardon?

A I said of course he does.

Q Yes.

THE COMMISSIONER: Mr. Blair,
in Foothills my recollection is that Westcoast was
a shareholder as to 20% of the shares; A.G.T.L. as
to 80% of the shares. Am I right?

A You're right and your
tenga was right also, that they were the owner of 20%
of the shares. There is a -- it has been announced by
both companies that that arrangement is being revised
so that Westcoast will own 30% of the shares henceforth.
And it may ^{well} be revised again.

Q So that the partner in
the Alcan route consortium, the new consortium, if we
can call it that, is this new or this old company with
a new name, and that is wholly owned by Foothills.

A That is correct.

THE COMMISSIONER: Sorry, Mr.
Steeves, I just wanted to see if I understood.

MR. STEEVES: I'm sorry, could
the reporter go back a bit? I'm lost.

THE COMMISSIONER: Mr. Phillips
speaks for --

MR. STEEVES: Thank you.

Q You speak with an equal
voice to Mr. Phillips in respect of the Northwest
Pipeline system.

A Yes, I hope so.

Q And so, too, does Mr.

R. Blair
Cross-Exam by Steeves

1 Hungerford, I take it.

2 A Mr. who?

3 Q Hungerford, is it?

4 Rutherford, I'm sorry.

5 A Mr. Rutherford is the
6 executive vice-president of Foothills Pipe Lines.

7 Q Yes, and does he speak
8 with an equal voice with you and Mr. Phillips as to
9 the Northwest system?

10 A Now, you're getting
11 sensitive. Some of us have different jobs and with
12 different companies, but we're all senior officers of
13 the participant companies and we all speak with assur-
14 ance and are well-informed on the purposes of the
15 project, so yes, we speak with equal voices.

16

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R. Blair
Cross-Exam by Steeves.

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Q Well, I certainly don't intend to offend your sensibility, I want to assure you of that.

A I didn't say sensibility, I said sensitivity.

Q All right.

THE COMMISSIONER: It's Friday afternoon Mr, Blair, it gets like this every time, so.

MR. STEEVES: No, the problem is the interruptions sir.

Now, I understand your purpose in coming here today, from what you've said, was to tell us that nothing has changed so far as the priorities of Foothills and so far as the priorities in connection with the Maple Leaf scheme or project. Am I right in that understanding?

A Well no, I'd prefer to let my purpose stay in my own words than in yours. My purpose in coming was to update the Inquiry on the sense of priorities and assessments that we have and to -- among other things, among quite a number of things, to assure that any statements that we are backing away from the Mackenzie Valley or withdrawing or that this is a red herring and a lot of nonsense to that kind has been said and I'm just saying that that's not right and what may have been suggested is incorrect. That our highest priority continues to be the Mackenzie Valley pipeline in terms of connection of gas from Arctic sources.

1 Q Well, anyone that says
2 that it is the intention of Foothills to proceed with
3 the construction of the northwest system before the
4 Mackenzie Valley pipeline is not speaking truthfully,
5 is that correct?

6 A Oh no, that's a completely
7 different point. We have said clearly enough that we
8 believe that while our highest priority in terms of
9 company responsibility as a Canadian pipeline company
10 is to connect the Canadian gas in the Mackenzie Delta,
11 highest priority among any projects to connect gas
12 from the Arctic, that we believe it's also true that
13 chronologically the Alaskan Highway project is likely
14 to be proceeded with before the Mackenzie Valley
15 project.

16 Q All right. We've got
17 that far. The position has changed so far as the people
18 of the north are concerned, as to the sequence of
19 construction in that first of all, instead of one pro-
20 ject, going from the delta to your system in Alberta,
21 you're now contemplating a project with two components,
22 one, the northwest system and the other, the Mackenzie
23 Valley pipeline, am I correct on that?

24 A No. We haven't described it
25 as a project with two components, at least if it would
26 not have been described precisely in that language, what
27 we are involved in now are two separate projects.

28 Q Okay.

29 A Which we believe to be
30 compatible and even to some degree, mutually supportive,

R.Blair
Cross-Exam by Steeves

1
2 one of the other. The first being our original project,
3 to provide a prompt and economical connection of gas
4 to the Mackenzie Delta through the Mackenzie Valley and
5 the second being the Alaskan Highway project in which
6 we have agreed to participate to be co-operative in
7 a project designed to move the Alaskan gas to markets
8 in the lower states of the United States.

9 Q Which of those -- what
10 would you like? You don't like projects, let's get
11 on common ground here, what word would you like?

12 A Well, I like the word
13 ^{all right} projects, but you were calling it one project with two
14 components and I'm calling them two separate -- two
15 completely separate projects, yes.

16 Q And those two separate
17 projects, are mutually supportive, give me that again
18 will you? I'm not sure I understood you.

19 A I said that, yes, they
20 were mutually supportive in my view.

21 Q Okay.

22 A I mean they support --
23 they were good for each other is what I mean.

24 Q Oh, and is that all you
25 mean when you say mutually supportive?

26 A Well, that's what I mean,
27 yes.

28 Q Okay.

29 A Just helping explain what
30 my language meant to you.

R. Blair
Cross-Exam by Steeves

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Q All right, let me go --
thank you for your assistance. Let me go back and
talk now about priority. I'm not sure I know what you
mean by that. Priority in what? Priority in corporate
effort? Priority in the timetable of construction?
What do you mean by priority?

A I mean priority in corporate
effort, corporate responsibility and as I mentioned a
moment ago, though not necessarily chronological precedence.

Q Well, can you tell me,
I understand you're not necessarily caveat. Can
you tell me which one is going to be built first according
to the present position?

A Well, for -- because of
circumstances which, from our point of view are --

R. Blair
Cross-Exam by Steeves

Q Please, which one is
going to be built first?

MR. HOLLINGWORTH: Let the
witness answer the question.

A I'm answering you.

MR. STEEVES:

Q Well just answer.

A I am.

Q O.K. Which one is going
to be built first?

A Because of circumstances
which are external to this situation in that we can't
control them, to my present information ^{I believe} that the Alaskan
highway one is likely to be built before the Mackenzie
Valley one. But the reason I am insisting on qualifying
this to you is that as you put the question to me, I
thought you did so in language which suggested that we
were designing the Alaskan highway one to occur before
the Mackenzie Valley one and we are not.

We are responding to external
situations which we can't control which make us believe
that it will probably work out that the Alaskan highway
one goes first; even though our enthusiasm in the long
run is stronger for the Mackenzie Valley one.

Q Am I stripping you away
too many qualifications if I understand your answer
to be the Alaska highway scheme will be built first
and the Mackenzie Valley scheme will be built second?

THE COMMISSIONER: I think
Mr. Blair used the expression "is likely to be built
first".

R. Blair
Cross-Exam by Steeves

1 MR. STEEVES: Well I --
2 can I not sir try and advance the position during
3 cross-examination. I am not being unfair to the
4 witness I am very sure. I would appreciate your
5 admonishment if you think I am.

6 Do you want to go back there
7 and tell me that your answer is that it's likely to be
8 built first.

9 A Well that's what my
10 answer was.

11 Q O.K. Now does that mean
12 you don't know and you're not sure?

13 A Yes.

14 Q When will you know and
15 what additional information do you require before you
16 will be able to answer that question without equivocation?

17 THE COMMISSIONER: I think
18 "without qualification" might be a better phrase.

19 MR. STEEVES: You accepted
20 my invitation.

21 A Well none of us know
22 everything absolutely. Of course because none of us
23 as companies can or should control the entire course
24 of events in something as important to the industry and
25 country as this project will be. I suppose there is
26 no time that I can tell you -- can promise you -- that
27 I will know everything. I hope not. I hope --

28 Q I don't want your promises

29 A I hope we just keep on
30 using the best information we can get and giving our

R. Blair
Cross-Exam by Steeves

1 best assessment of what is best to occur and what is
2 most likely to occur and then trying to make the
3 good things happen and trying to keep the bad things
4 from happening.

5 Q O.K. It is likely that
6 the Alaska highway project will go ahead before the
7 Mackenzie Valley project according to the present knowledge
8 you have. Is that fair?

9 A Yes.

10 Q All right. Now, that
11 involves some kind of a decision in the operating
12 policies and in the pursuit of the objects of the company
13 of which you are president, doesn't it?

14 A Of course it does. Yes.

15 Q And if something
16 happened or some new understanding was achieved --
17 I'm sorry -- some external event or events occurred
18 or some new understanding was achieved about the
19 realities of a Mackenzie Valley Pipeline under the
20 Maple Leaf Scheme which has resulted in a change not
21 in priorities as I understand you but in how the corp-
22 orate energies of your company are going to be expended.
23 Is that fair?

24 A Not quite. There is no
25 change in the way that the corporate energies of our
26 company are expended in respect to the Mackenzie
27 Valley pipeline. But there has been over the last year
28 or two a realization among all of us that some of the
29 schedules originally proposed for the Mackenize Valley
30 pipeline were too optimistic and that the line would be

R. Blair
Cross-Exam by Steeves

1 built and in operation rather later than had been
2 supposed before. For some time now for I think the
3 better part of the year, our best assessment is that
4 which I have given today that the line the Mackenzie
5 Valley pipeline is likely to be in operation by the
6 end of 1982.

7 I don't believe there has been
8 any change in that assessment or in the way our
9 corporate energies have been directed toward trying to
10 make it happen as and when it should.

11 Q O.K. Now I understand
12 you to say that the decision to build the Alaska highway
13 system first is not through any deliberate choice on
14 your part but because of events. Am I quoting you or
15 reiterating your statement correctly?

16 A Yes, very well.

17 Q O.K. Have you told us
18 all about the events that have dictated this decision
19 to build the Alaska highway system first and the Maple
20 Leaf system second?

21 A Well certainly not here
22 and today.

23 Q Oh, I see.

24 A We have given evidence
25 explaining that reasoning and assessment in various
26 places including the Federal Standing Committee on
27 Northern Development.

28 Q I see.

29 A But we haven't covered
30 it all today.

Q I invite you if you
t those events are. What
that you would build the
st and the Maple Leaf system

A The emergence of -- the main event has been the emergence of a new application, that of the Northwest Pipeline Company to provide a connection for gas to be produced from Prudhoe Bay along a route and with a project design which we believe will make it practical for operation to commence -- for operation of gas transmission to commence before 1982. We believe that at best it could commence as early as 1980.

Recognizing as we have for some years that the most urgent driving force in all of this business of pipelines from the Arctic is the effort by some United States utility companies to get additional gas supply and knowing that their need for gas supply is absolutely right now. It's as soon as they can possibly arrange such a connection because they are experiencing sharp curtailments of supply in these very years and knowing that there is expected to be gas supply available from Prudhoe Bay by about 1980. We judge that every effort will be applied to get that Alaskan gas moving by 1980 and that if we are correct in our assessment that the Alaskan highway project is one which by its nature, by its design is capable of being put in operation by 1980. We have come to believe that it is likely that that project will proceed before the

R. Blair
Cross-Exam by Steeves

1 Mackenzie Valley pipeline assuming of course that it
2 obtains authorization in all of jurisdictions in which
3 it must face regulatory examination now.

4 Q Can I try to summarize
5 that very long and intricate statement? Are you
6 telling me sir that the reason for the event rather --
7 the event that led to the decision to build the
8 Alaska highway project before the Maple Leaf-Mackenzie
9 Valley project was the fact that somebody came along
10 and said "Let's build a pipeline down the Alaska highway".

11 That's what I understood
12 you to have said and I want you to --
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A Well, if I --

Q To help me, please.

A -- if I thought it could have been said that shortly, I would have. You've given a summary but I think it deserves a bit more explanation than that very brief statement would give. But yes, I said that the principal event was the emergence of an application which we believe could, which we believe unlike the alternative applications could in fact be proceeded with in order to get that Alaskan gas moving as soon as it would first become available, which we believe will be before Mackenzie Delta gas can start moving.

Q So O.K., as soon as someone said to you, "How about building a pipeline down the Alaska Highway?" Immediately or shortly thereafter it became obvious to you that that was a better project to start with than the Maple Leaf route.

A Well, if you want me to
to that point
simplify these things/, well I'm not sure, so that you
and I can get to some point, I won't argue step by
step, but when you're trying to take a decision that
requires as much study as does the launching of any
of these projects, and to ask me to agree with you,
that a one-sentence statement summarizes our reasons,
that isn't really practical. There's far, far more to
it than that. Certainly nobody just comes walking in
the door saying, "Hey, I've got an idea,"

And we say, "That's great."

Now our views are changed."

R. Blair
Cross-Exam by Steeves

There's a tremendous amount of engineering study, of economic study that goes into that kind of assessment.

Q Well, I understand all about this. Sorry, one of the events, and I understand you to say the principal event that led to the decision to build the Alaska Highway project first, and the Mackenzie Valley project second, was the emergence of that concept, and you can interrupt. Did you want to say something?

A Just "Yes."

Q O.K. and were there any other events?

A No. Well, there's an awful lot of events going on all of the time but I've told you and I've confirmed that the basic reason that we decided to participate in a project which showed a schedule earlier than the Mackenzie Valley project was the emergence of the concept that it could turn out that way, it seemed to make sense to us. If that's what you wanted me to say, O.K.

Q Well, tell us why it made sense then and I'll listen to you as long as you want to explain it. I'm sorry, I'll help you. I've gone through your previous evidence. You have said, for example, that the worst possible thing for Canada would be for its natural gas supply in taking it out of frontier gas to become entangled with foreign regulatory proceedings. Do you still say that?

MR. HOLLINGWORTH: Can you

R. Blair
Cross-Exam by Steeves

1 cite a source for that statement, Mr. Steeves?

2 THE COMMISSIONER: Well, let's
3 do this one step at a time.

4 MR. STEEVES: I'm sorry.

5 THE COMMISSIONER: Mr. Holling-
6 worth said, are you able to put the passage to Mr.
7 Blair?

8 MR. STEEVES: Well, I'm sorry.
9 Are you quarrelling with that statement? You don't
10 quarrel with that, do you, Mr. Blair, that you've
11 said that?

12 MR. HOLLINGWORTH: He might quarrel with
13 your wording, Mr. Steeves, and that's why I prefer
14 that you produce the document where he's alleged to
15 have said that so you can recite the quotation to
16 him and ask him whether he agrees or disagrees with
17 it.

18 MR. STEEVES: Q All right, were
19 you ever of the view that it would be a sad day for
20 Canada if the taking out of frontier gas supplies
21 became involved in foreign regulatory proceedings?

22 A I'd have to know the
23 context a bit.

24 Q Forget about context.
25 I'm asking you, were you ever of that opinion? We'll
26 get to what you said later.

27 MR. HOLLINGWORTH: Well, that's
28 with respect, sir, rather a peculiar question Mr.
29 Steeves has put.

30 THE COMMISSIONER: No, I don't

R. Blair
Cross-Exam by Steeves

1 think it is. Mr. Steeves is simply saying, "Did you
2 hold the view at one time or at any time that it would
3 be a mistake for the delivery of Canadian gas from
4 Canadian sources to Canadian markets to be dependent
5 on a favorable decision by U.S. authorities?"

6 That's all it comes down to
7 and I think Mr. Blair should be able to indicate whether
8 he has at any time held that view. I can't recall
9 whether he's expressed it here. I really can't recall.

10 MR. HOLLINGWORTH: I guess
11 really I'm concerned because there seems to be a
12 reluctance on the part of Mr. Steeves to cite any
13 source, if indeed he has one.

14 MR. STEEVES: I'm not asking
15 for a source. Why don't you listen to my questions?
16 I'm asking him if he ever had that opinion.

17 A Well, Mr. Berger, I
18 quickly confirm that the opinion as you've expressed
19 it, certainly has been my opinion and still is.
20 I'll adopt that one and I'm sure I have said that
21 on some occasion. The reason I'm being hesitant is
22 that the opinions you're expressing, Mr. Steeves, were
23 not worded that way and were different, and the two
24 times you said it were different from each other.
25 I'm just trying to wonder whether I want to adopt the
26 way you put it or not, and it didn't sound quite
27 right so I hesitated.

28 Q I see. Well, can you
29 answer now?

30 A I've answered that as

R. Blair
Cross-Exam by Steeves

1 Mr. Berger has stated it, that is my opinion.

2 Q I would like you to answer my question.

3 A Well, I can go back to
4 the reporters too. I think your very first one -- I'll
5 just do my best from memory -- the very first time
6 you put the question, was it the worst thing for Canada
7 if we became, if the project to connect Canadian gas
8 became involved in United States proceedings, and I
9 hesitated on that one because I don't think I ever
have said that it was the worst thing for Canada.

10 Q Let me put it again and
11 then we'll get rolling. Forget about, you know, memory
12 contests about what I asked you, and let me put to
13 you the question again. Were you ever of the opinion
14 that the involving of the system for extracting
15 frontier gas and delivering it to Southern Canada
16 would be or ought not to become involved in foreign,
17 U.S. regulatory proceedings?

18 A No. As you've placed that
19 question, that does not sound familiar to me as an
20 opinion that I've expressed.

21 Q I'm not interested or
22 not in whether you've ever expressed it. Please let me
23 make this absolutely clear. I want you to tell me
24 whether you have ever had even the most private
25 thought to that effect.

26 (LAUGHTER)

27
28
29
30

R. Blair
Cross-Exam by Steeves

A As you ^{have} put the question,
no that is not a thought that I recollect. It comes
pretty close to some things I've been alarmed about.

Q Okay, well tell me what those things are, so far as they relate to Frontier Gas and U.S. regulatory proceedings.

A Well, the main thing is that I think Canada should not be dependent on projects under United States control, under United, States management control or ownership control or needing to rely continuously and --

THE COMMISSIONER: Sorry,
I missed the last phrase.

A Or needing to rely continuously on United States governmental controls and I think strongly that it would be very bad for Canada to have one of its main energy arteries come into that kind of situation.

MR. STEEVES:

Q Okay. Have you ever thought -- let me try and get you down to a particular instance if I could, have you ever thought about the national interest of Canada as it relates to the taking out of frontier gas, becoming involved in the Federal Power Commission proceedings in the United States? Have you ever thought about that?

A Yes.

Q You've thought about
it a great deal, haven't you?

A No, not really about that particular subject. I've thought about other

R. Blair
Cross-Exam by Steeves

1
2 factors that bear on this a great deal, but the way
3 you're putting it doesn't strike me as one of my
4 greatest concerns.

5 Q Okay.

6 A At an earlier stage
7 we very obviously spent many years working in the
8 original Gas Arctic System Study Group and then after
9 that, more years in the organization that you represent
10 working on pipeline systems which would, among other
11 things, involve a degree of the point of concern that
12 you're raising and so in those years we were thinking
13 about the issue but we weren't considering it so
14 serious as to be critical. Then, we began to differ
15 with -- we began to change our views to see some things
16 in rather different ways and I just -- I don't remember
17 that being so vivid in my mind as the emphasis you're
18 putting on it today. Also, it is a point of concern
19 for many people.

20 Q Okay. Was it ever a point
21 of concern to you?

22 A I wouldn't mind knowing
23 what you're trying to get to a bit here. I've said that
24 it's a matter I've thought about but that I'm not
25 representing it as one of my points of really critical
26 concern. Now, I suppose everything -- the answer has
27 to be yes. Everything's a point of concern to people
28 in this at some time or another.

29 Q Are you asking -- you're
30 saying you'd like to read my notes?

R. Blair
Cross-Exam by Steeves

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A I don't know --

Q Why do you want to know
where I'm going? Can't you just answer the question?

THE COMMISSIONER: Well,
Mr. Steeves, let's have the next question, come on.

MR. STEEVES: Okay. You're
right.

Have you ever attacked the
Arctic Gas proposal on the basis that one of its great
defects is that it was subject to U.S. Regulatory
approval? That's a question.

A I don't remember an
instance. I would not be at all surprised if sometime
a group of people representing Foothills were
putting together a catalog of the things wrong with
Arctic Gas, if that one got included in the list
and I may well have given evidence in some proceeding
and included it in my list. I've told you several
times now that I don't remember it as one of my own
individual, greatest points of concern, but it may well
have been in the list.

Q Well, if you said it
though, you believed it and you meant it, right?

A Of course.

Q Yes. Have you ever
publically extolled the virtues of the more -- I almost
said moribund, the Maple Leaf Scheme and said one of
it's great points of superiority over the Arctic Gas
proposal was that it was not subject to the approval of

R. Blair
Cross-Exam by Steeves

1
2 the Federal Power Commission in the United States?

3 A Yes, I'm sure I've included
4 that in the list too.

5 Q Would it be an exaggeration
6 to say that you've said that many, many times?

7 A It seems to me an
8 exaggeration to put it that way, but I'm -- you're
9 perhaps prepared for this and I haven't --

10 Q Is the --

11 THE COMMISSIONER: At any
12 rate, would you regard that as a sound point in favour
13 of the Foothills scheme when set against the Arctic Gas
14 scheme?

15 A Yes, yes. Yes sir,
16 I'm not -- I'm just embarrassed lest I appear to be being
17 difficult here. I'm trying to give you precise answers
18 for your record on -- you were asking me questions
19 about things I may have said and/I really wish to
20 say to you, I've tried to say it several times and I'll
21 try carefully to say it very carefully once, is that
22 the point you make, I think, is a point of some substance,
23 it's one of the things in which the Arctic Gas scheme,
24 is in my view, inferior. But it is not -- my only
25 difference with you is on emphasis. I don't remember
26 it as one of the great or leading points that I
27 would have thought of or made in my own assessment of
28 the situation. I think there are other ways which are
29 far more important in which the Arctic Gas scheme
30 would produce critically serious problems for Canada

R. Blair
Cross-Exam by Steeves

1
2 and conversely in which the Foothills or Maple Leaf
3 proposal is substantially better in the Canadian
4 public interest.

5 Q Okay. Is the Northwest
6 Highways Scheme dependent in any way whatsoever upon
7 the approval of the Maple Leaf Scheme and the issuance
8 of a certificate to it by the National Energy Board?

9 A The "it" being the
10 Maple Leaf Scheme?

11 Q As we heard about it
12 up until today, here.

13 THE COMMISSIONER: Sorry, I
14 didn't -- would you state that again, I didn't quite
15 get it.

16 MR. STEEVES: Okay.

17 THE COMMISSIONER: Is what
18 scheme dependent on what?

19 MR. STEEVES: Is the Northwest
20 Scheme dependent on the Maple Leaf?

21 THE COMMISSIONER: Oh, on the
22 N.E.B. issuing a certificate for the Maple Leaf.

23 MR. STEEVES: M-hm.

24 A No, except only in this
25 respect that we have the Canadian companies in the -- who
26 are participants in the Northwest Alaskan Highway
27 project have told the American company and this
28 representation is contained in writing and is number
29 one in virtually every agreement and filing that has
30 been made, that the highest priority of the Canadian

R. Blair
Cross-Exam by Steeves

1
2 companies in respect of connecting gas in the Arctic
3 continues to be the connection of the Mackenzie Delta
4 gas by the Maple Leaf project and that anything else
5 we do has to be on the basis that it will not be
6 incompatible with or interfering with that higher
7 responsibility.

8 That is the only way in
9 which one could say that the Northwest project were
10 conditional upon the success of the Maple Leaf project.
11 There's certainly no contractual or other flat
12 exclusiveness between them.

13
14 Q I appreciate your answer
15 but I'd like to put the question again, just so it'll
16 make -- and would you answer it again? I want to
17 make sure I understand what you're telling me. Is
18 the Northwest Scheme -- the Alaska Highway Scheme,
19 dependent, in any way, on the N.E.B. giving a certifi-
20 cate to Foothills for the Maple Leaf Scheme?

R. Blair
Cross-Exam by Steeves

1 A Well my answer is the
2 same.

3 Q And obviously ^{I mean} in any
4 significant way. Do you understand that?

5 A My answer is the same
6 to you. The basic answer is "no" and the only inter-
7 relationship is the one I just described to you.

8 Q The basic answer is "no".
9 That's fine. Is the construction of the Maple Leaf
10 scheme dependent on the granting of a certificate by
11 the Federal Power Commission to the Alaska Highway scheme?

12 A No.

13 Q Can you tell me that
14 without any reservation. I want to make sure that I
15 understand your very succinct answer.

16 A I repeat it, the answer
17 is no.

18 Q N-O?

19 A N-O.

20 Q Thank you. Is the
21 financing of the Northwest highway system -- I'm sorry
22 Alaska highway scheme in any way dependent on the
23 financing of the Maple Leaf scheme.

24 A No.

25 Q Is Mr. Phillips -- I
26 understand that they have an international reputation in
27 the field of pipeline operation, financing and management.
28 Am I correct in that?

29 A Yes.

30 Q Do you remember appearing

R. Blair
Cross-Exam by Steeves

1 before the Standing Committee that you've referred to
2 previously? That is, the Standing Committee on
3 National Resources and Public Works of the House of
4 Commons on June 22, 1976?

5 A Yes.

6 Q Were you there from
7 beginning to end -- that is to say, you heard all that
8 was said by both Mr. Phillips and by Mr. Hungerford.

9 A Mr. Rutherford? Yes.
10 I don't believe I left the room.

11 Q O.K. Can I perhaps
12 give you a copy of this? I'm sorry I don't have more
13 copies but I've made some notes on here. I'm sorry
14 I hope you'll ignore me. The notes and I don't mind
15 you reading them -- in some cases the notes really
16 suggest questions to me. In some cases, there are
17 comments like "oh yeah" and so on but -- would you
18 turn please and I am sorry -- I have one more copy.
19 Can I give you this and perhaps my friend Mr. Hollingworth?

20 THE COMMISSIONER: O.K.

21 MR. STEEVES: At 7313 --
22 that's page 7313. Mr. Phillips here was answering
23 a question from Tommy Douglas from Nanaimo - Cowichan, the
24 Islands. Mr. Douglas put this question to Mr. Phillips:

25 "What would be the benefits to Canada and to
26 Canadian consumers apart from the question of being
27 of assistance to our American neighbors which is
28 certainly worth considering, are there any advantages
29 at all to Canada?"

30 I'm sorry. So that we don't misunderstand each other,

R. Blair
Cross-Exam by Steeves

perhaps I should go back. Could we go back to the top of that page? Will you read through with me?

"THE CHAIRMAN: Thank you, Mr. Gillies. I will mark you down for the second round."

He's talking here to one of the members of the committee, and then he says,

" Mr. Douglas?"

And Mr. Douglas says this:

" Mr. Chairman, I would like, if time permits, to have two series of questions. The first series I want to ask is with reference to the proposed Fairbanks-Alcan Highway project, either to Mr. Phillips or to Mr. Blair. I take it this would not be a common carrier. In other words, no gas would be delivered in Canada from this pipeline. This would be entirely to take gas from Prudhoe Bay to the United States."

Mr. Phillips answered that in this way:

" Yes, Mr. Douglas. It is simply the trans-shipment of Alaska gas across our country. Call it a land bridge, if you like."

Now, I read all that, sir, so we can get the context in which this discussion took place, and then Mr. Douglas went on and he said:

" What would be the benefits to Canada and Canadian consumers, apart from the question of being of assistance to our American neighbors, which is certainly worth considering? Are there any advantages at all to Canada?"

Then Mr. Phillips said,

R. Blair
Cross-Exam by Steeves

1 " Yes, there are a number of advantages."
2 And then he said this at the bottom of that answer:

3 "Essentially I think it makes the movement of
4 Canadian gas from the delta to the eastern part
5 of Canada a sure thing. Without it I would have
6 to say it is questionable."

7 Were you there when Mr. Phillips said that?

8 A I already told you I was,
9 yes.

10 Q Yes. Did you disagree
11 with that at the time Mr. Phillips said it?

12 A No, I don't remember
13 particularly. I certainly didn't disagree with it
14 orally. I think I was thinking about my own previous
15 answers and watching the members of the committee, and
16 I'm not certain how intently I listened to those words,
17 but I don't remember reacting.

18 Q Well, was Mr. Phillips
19 right or wrong when he said that before the Northwest
20 Highway system -- I'm sorry, the Alaska Highway system,
21 the delivery of delta gas to Southern Canada was
22 questionable, and that the Northwest Highway system
23 made that delivery no longer questionable.

24 THE COMMISSIONER: Excuse me.

25 Q Was he right or wrong,
26 in your opinion?

27 THE COMMISSIONER: Excuse me,
28 Mr. Steeves. I want you to answer that, Mr. Blair, but
29 where did he say that? You've circled at the bottom
30 of that passage,

R. Blair
Cross-Exam by Steeves

1 "I think it makes the movement of Canadian gas,"
2 etc., but what's this other part that you just cited?
3 Where is that?

4 MR. STEEVES: I'm sorry, that's
5 all I wanted. I think it makes the movement of
6 Canadian gas from the delta to the eastern part of
7 Canada a sure thing. Without it I would have to say it is
8 questionable.

9 THE COMMISSIONER: Oh, I see.
10 Right, right, right, right. O.K.

11 MR. STEEVES: All right.

12 A What is your question?
13 What is your question to me? I've lost track.

14 Q Well, was Mr. Phillips
15 right or wrong when he said what he stated to the
16 Standing Committee?

17 A Well, I'm sure Mr. Phillips
18 was expressing his assessment of the situation and I
19 suppose that what lies between you and I now is what
20 he meant by the word "questionable". I'd say that many
21 people would have to say that the movement of Canadian
22 gas from the delta to the eastern part of Canada is
23 questionable at this stage. That's what these Inquiries
24 and hearings are greatly about. Mr. Phillips, I concede
25 Mr. Phillips here put more emphasis on his assessment
26 of the ways in which a prior Alaskan Highway project
27 could be beneficial to a Mackenzie Valley Pipeline
28 project, more emphasis than I've put. He catalogued
29 above this the various benefits that he saw, and he
30 ended up with this enthusiastic summary of the improved

R. Blair
Cross-Exam by Steeves

1 prospects of there being a Mackenzie Valley, well,
2 excuse me, the improved prospect of the gas from the
3 delta getting to Eastern Canada. He put more emphasis
4 on his word in his mind at the time than I have been
5 putting, but I don't find that in sharp contrast with
6 my assertion to you, which I repeat, that no, the
7 Mackenzie Valley Pipeline is not dependent upon the
8 -- does not depend upon the Alaskan Highway proceeding
9 ahead of time.

10 Q Is the Mackenzie Valley
11 project without the Alaska Highway system, a question-
12 able project?

13 A I think as I use the
14 word "questionable", it's a questionable project with
15 or without the Alaskan Highway system.

16 Q Well then, Mr. Phillips
17 is wrong when he makes that statement. Is that what
18 your evidence is? Read it out, would you?

19 THE COMMISSIONER: Well, excuse
20 me, excuse me, Mr. Steeves. I think it's necessary
21 to be precise about these things. Mr. Phillips said
22 that without the Northwest project the movement of
23 delta gas to Eastern Canada is questionable. Now, if
24 we're talking about the movement of delta gas to
25 Eastern Canada, that, it seems to me, is something a
26 little different from the Mackenzie Valley project
27 which I take it is the Arctic Gas project, or maybe
28 it's the Foothills project, but what the man said
29 was

30 "The movement of Canadian gas from the delta

R. Blair, B.C.

R. Blair
Cross-Exam by Steeves

1 to Eastern Canada is questionable without
2 the Northwest project."

3 At least if I understand this, and I'm not slowly
4 losing my mind, that's what he said. Now, you're
5 quite right to tax Mr. Blair with that, but I think
6 it's important to phrase it precisely on each occasion.

R. Blair
Cross-Exam by Steeves

1 MR. STEEVES: Yes, let me
2 repeat it in the terms suggested, I almost said, "My
3 Lord". Let me repeat my questions in those terms.

4 Was Mr. Phillips wrong when
5 he said that the Alaska Highway system makes the movement
6 of gas from the delta to the eastern part of Canada
7 a sure thing?

8 A I don't know if he's
9 wrong or right. He said he thought that that was so.
10 The first words were, I think it makes it that I'm
11 sure he was correct in knowing what he thought and I
12 don't think it's up to me to say whether his judgement
13 is correct or incorrect.

14 Q What's your own judgement
15 on that question?

16 A It's less emphatic than
17 the way that Mr. Phillips expressed it on this occasion.
18 I think that the movement of Canadian gas from the
19 delta to the eastern part of Canada is questionable,
20 questionable is not a word I use very much, but it
21 is certainly open, say, to question.

22 I think personally it will
23 occur, it probably will occur with or without the
24 Alaskan Highway project, but I do think that it's --

25 Q I beg your pardon, can
26 I interrupt you because I'm not -- you lost me completely.
27 I don't understand how you can say something is probable
28 but at the same time questionable. Is that what you're
29 saying? That's what I heard you say.

30 A Yes.

R. Blair
Cross-Exam by Steeves

1 MR. HOLLINGWORTH: Well,
2 perhaps if the witness could finish his answer.

3 MR. STEEVES: I beg your
4 pardon, I don't want to interrupt you unnecessarily,
5 but you lost me. You were saying that -- and if I
6 may help you pick up the train--

7 A No, I don't need your
8 help, I'll finish it. I was saying that I do think
9 that the prospects of the gas from the delta moving
10 to the eastern part of Canada are improved -- would
11 be improved by the earlier installation of an Alaskan
12 Highway project and I suppose that in the end the
13 only difference is one of degree between the extent
14 to which Mr. Phillips believes that and expresses and
15 the extent to which I believe and express it. But,
16 when I go right back to your question, which began all
17 this, is, does the Maple Leaf project depend upon the
18 authorization in the United States of the
19 Alaskan Highway project, my answer is still flatly no,
20 because I think in that kind of a question, I think
21 I properly take that as a question of dependency and
22 in formal terms or the contractual certainties or
23 financing certainties which make one project depend on
24 the other and I correctly answered you, no, there are
25 not.

26 The degree to which the
27 Alaskan Highway project may help the Mackenzie Delta
28 project is a matter of opinion, but it is a matter
29 of opinion not of contractual or regulatory certainty.
30

1
2 Q I suggest to you, sir,
3 that whether or not the Maple Leaf scheme ever goes
4 ahead depends not only on whether or not it gets
5 regulatory approval from Canada, but also depends on
6 whether or not this Northwest Alaska Highway system
7 is approved by the Federal Power Commission in the
8 United States of America.

9 A Well, you're absolutely
10 wrong and I contest that just totally.

11 Q Well then, it follows,
12 I take it, that the movement of Canadian gas from the
13 delta to the eastern part of Canada has always been a
14 sure thing, is that your evidence?

15 A No.

16 Q Doesn't that follow
17 logically?

18 A No.

19 Q Okay. Have you talked
20 to Mr. Phillips about that statement since he made it?

21 A No, I never had -- no one
22 ever called attention to it before to my recollection.

23 Q Do you intend to talk
24 to him about it now?

25 A Not particularly. I
26 still don't see any sharp contrast between that view
27 and my own. It's a matter of the opinion of individual
28 executives with a background in this business and the
29 way that they express the opinion on a given occasion
30 and the emphasis that they put on it.

R. Blair
Cross-Exam by Steeves

Q Okay.

THE COMMISSIONER: Mr. Blair, could I just intervene for a moment Mr. Steeves and make sure I understand Mr. Blair's conception of the dynamics at work.

MR. STEEVES: Why are those lights on me and nobody else?

THE COMMISSIONER: I was just about to say, after a year and a half we have a new man on lights. He came up in your plane I think.

Mr. Blair, as I understand it, the United States has a shortage of gas, a good deal more acute than Canada's, so that the concern of the United States to transport their Prudhoe Bay gas to markets in the lower 48, especially in the mid west and in the eastern United States, is their overwhelming and overriding concern and given the concerns related to environmental questions and questions related to native claims along the Mackenzie Valley, the idea emerged of the Alcan route as an alternative, strictly for the purpose of transporting Alaskan gas to the lower 48. So far is that about the size of it?

A Yes.

Q And the U.S. concern about connect in one way or another, their Prudhoe Bay gas to the lower 48 is a concern that has been expressed, among others, by Mr. Enders, their Ambassador in a series of speeches in recent weeks.

1
2 A Yes.

3 Q Well, I said all of
4 that because I was wondering if there was anything more
5 I could get out of the conversation that Mr. Steeves
6 and you have had for the past hour. No, I'm not being
7 facetious. That was my understanding when the two of
8 you began your discussion, that is my understanding now,
9 is there anything more that I should have been made
10 to appreciate? Is there anything beyond the factors
11 at work as I've just described them?

12 MR. STEEVES: Can I answer
13 that?

14 A I don't think so, no.
15 Not in my view. In my view there is nothing particularly
16 more that has been developed in this period that goes
17 beyond the factors you've described.

18 THE COMMISSIONER: If, in the event Canada
19 and the U.S. agreed, of course, the application hasn't
20 been filed with the Minister in Canada or with the
21 National Energy Board, but if in the event Canada and
22 the U.S. agreed that the U.S. could transport their
23 Prudhoe Bay gas over the Alcan route, then you say that
24 connection of delta gas, by the Maple Leaf route would
25 be a sound proposition and that it would in no way --
26 neither the Foothills determination to do so nor the
27 feasibility of the project would have been impaired
28 by a vision to embark earlier upon the Alcan route?

29 A That is correct. There
30 is perhaps one thing more that I might properly add
in response to the invitation of these questions of

yours. It seemed to me that much of the difference between Mr. Steeves and I in those protracted questions and answers had to do with his inviting me to agree that I had put considerable emphasis in attacking the CAGPL project or in speaking in favour of the Maple Leaf project on the avoidance of a need to get a United States regulatory authorization as a part of the project to connect the Canadian gas, and I hadn't thought of just that, expressed that way. I don't remember thinking of that as one of the biggest issues and I was avoiding or refusing to agree with Mr. Steeves that that was one of my main concerns. At least I believe that's what was happening between us. Also, I couldn't do it absolutely because the point may have been included on a list sometime and I may have spoken to the list and I just don't remember. I may have on more than one time, these things have been going on over a long number of years now. But the related point that has been tremendously important to me and which comes close to this is that the projects -- until the emergence of the Alaskan Highway project, the projects which would move United States gas and which would require United States Regulatory authorization were either a project in the one case which came nowhere near Canada at all, the El Paso project or the Arctic Gas project, which in its content, put great emphasis on the alleged virtues of piggy-backing, Canadian gas on American gas and on a claimed economy of scale and I thought those points were used heavily against Canada in a negotiating way and were making us much too dependent

1
2 on decisions including Regulatory decisions within
3 the United States jurisdiction and that we rebelled
4 against that and we fought those issues very hard and
5 they're not unrelated to the need to get U.S. Regulatory
6 authorizations. Also, they go much further than the
7 need to get U.S. Regulatory authorizations. To me, the
8 key thing is that they go right to the extent of putting
9 -- making the Canadian project dependent upon, subordinate
10 to and controlled by, in management and ownership, what
11 is basically a United States purpose.
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R. Blair
Cross-Exam by Steeves

THE COMMISSIONER:

Yes, well, you've made
that case on other occasions, and here.

Mr. Steeves, you said you
wanted to enlighten me on this matter.

MR. STEEVES: Yes, I'm sorry,
I was sort of entering into the spirit of
the thing. I don't think I should. It should be
done in argument. I don't mean I don't think I
should enlighten you; I think it should be done later.

THE COMMISSIONER: All right.

MR. STEEVES: I'm sorry, does
that conclude all our cross-examination?

THE COMMISSIONER: Well, let's
see.

MR. STEEVES: Well, I suppose
I have a great deal more to go but others should have a chance
and I'm sorry, I say that seriously, we're all busy,
including Mr. Blair, and --

THE COMMISSIONER: All right,
let's --

MR. STEEVES: There's coffee
out there, if I may suggest it.

THE COMMISSIONER: Well, before
we adjourn for a cup of coffee, let me say that I
have always extended to Mr. Blair and Mr. Horte, who
represent the two pipeline companies, the widest
latitude in giving their evidence, and may I say that
each has taken full advantage of that, and the cross-
examination has necessarily ranged widely and I don't
-- and I have extended the same latitude to Mr. Wah-Shee

R. Blair
Cross-Exam by Steeves

1 and Mr. Erasmus, to Chief Elijah Smith, to Mr. Raddi,
2 and would extend the same latitude to Mr. Erion and
3 to Mr. Robertson, who are the spokesmen for the organ-
4 izations appearing before this Inquiry. But having
5 said that let me make it clear that you should all
6 bear in mind the mandate of this Inquiry and the
7 limited usefulness of the discussion we've had for
8 the past hour. That is I'm not criticizing you in
9 any way, Mr. Steeves, for pursuing it, but these are
10 geopolitical questions, many of them, that will only
11 be resolved by the people elected to make political
12 judgments for sovereign states, and I am here to
13 assist those who govern us by finding the facts,
14 predicting the consequences as best I can, but I
15 don't think they're looking to me to inform them on
16 any of these questions that you've raised with Mr.
17 Blair.

18 On that note of laughter from
19 the next room, we'll adjourn for a few minutes for a
20 cup of coffee and then you have some questions. You're
21 the only one with any questions, I take it.

22 MR. GOUDGE: Mr. Sigler
23 has one or two now, sir. I have one or two. I anticipate
24 we'd be able to conclude promptly after coffee.

25 THE COMMISSIONER: O.K., well
26 well take a break.

27 (PROCEEDINGS ADJOURNED FOR A FEW MINUTES)
28
29
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R. Blair

(PROCEEDINGS RESUMED PURSUANT TO ADJOURNMENT)

MR. HOLLINGWORTH: Mr. Commissioner, just before we broke you put a question to Mr. Blair and he'd like, if he could, to add some further remarks in response to your question.

THE COMMISSIONER: Right.

A Mr. Berger, I just realized during coffee time that in my addressing the exact questions put to me and trying to answer precisely I had obviously temporarily overlooked a very relevant point that I should have made, and that is that when we were discussing the extent to which reliance on United States regulatory decisions would be detrimental to the project to connect the Canadian gas, my answers had been in terms of the possibility that Canadian gas connection would be delayed or interfered with at the time by United States regulatory decision. I didn't come back to, I think, a very relevant point and one on which I have put a lot of emphasis in the past, and that is that if the timing occurred so that the United States regulatory decision, in order to meet United States objectives, put a pressure of time on a Canadian project, and particularly on one involving the Mackenzie Valley, and created an urgency of decision in Canada on matters as difficult as the matters expressly addressed in the Inquiry's terms of reference, that then I would say absolutely and with great emphasis that it would be detrimental to the Canadian situation to have that occur to meet a pressure of United States purposes. That's perhaps the most important point of all that I

R. Blair
Cross-Exam by Sigler

1 could have made, had I been answering more generally,
2 and it is the absence of that element in the Alaskan
3 Highway project that has been an additional reason
4 for our co-operative activity and participation now
5 in a project which does move Alaskan gas to United
6 States markets, but does not press urgently for
7 Canadian resolution of all of our own affairs in our
8 own country.

9 THE COMMISSIONER: Mr. Sigler,
10 did you want to ask ^{some} questions at this stage?

11 MR. SIGLER: Yes sir, if I may.

12
13 CROSS-EXAMINATION BY MR. SIGLER:

14 Q From the point
15 of view of my client, Mr. Blair, the municipalities, the
16 actual timing of construction is important in trying
17 to determine the magnitude of impact and the funding
18 of impact costs on municipalities. Now, you stated that
19 your purpose in coming before the INquiry today was to
20 keep the Inquiry posted as to when the Mackenzie
21 Valley Pipeline will be built, and you underlined the
22 word "when" in the evidence that you circulated.

23 Now, in hearing your evidence
24 I have heard from you when a Mackenzie Valley Pipeline
25 could be built, and you said 1982. You said that "It
26 will likely be later." But I still haven't heard
27 your opinion as to when the pipeline will be built.
28 I wonder if you could provide that information that
29 you state you came here to provide?

30 A Yes. I had meant to

R. Blair
Cross-Exam by Sigler

1 just leave it at that, with the summary statement that
2 we believe that the Mackenzie Valley Pipeline can be
3 authorized by, I said 1978 or '79, and in operation by
4 the end of 1982, which would indicate its construction,
5 obviously, in the years 1980, 1981, and 1982.

6 Now, I can give you much more
7 particularly so, and I'd be pleased to, our own
8 schedule of when that construction would occur.

9 Q Well, in terms of the
10 1982 date again? I would like to hear from you if I
11 could, your opinion as to when it will be built,
12 and in speaking of "it" I mean the Maple Leaf line.
13 By that I don't mean can, but your opinion as to when
14 it will be built.

15 A Our opinion is that it
16 will be authorized by 1978 or 1979, and will be built
17 forthwith after that authorization. The schedule
18 that we would like best would be one in which the
19 authorization occurred in 1978, and in which in that
20 fall and the winter of '78-79 the staging site at
21 Enterprise would be prepared and temporary wharf and
22 stockpile sites would be cleared in anticipation of the
23 1979 shipping activity, and then in 1979 the centre
24 line survey, station pad clearing, access road location,
25 and borrow pit clearing would occur, with shipping and
26 stockpiling. In 1980 the continuing logistics and
27 stockpile operation would continue and one spread would
28 start to lay pipe, and in 1981 and 1982 the greatest
29 part of the actual pipe-laying construction would
30 occur so that the line would be complete and in operation

R. Blair
Cross-Exam by Sigler

1 by the fall of 1982, and then in the years 1983, 1984
2 and 1985 the construction would continue of the
3 compressor stations along the line, necessary to bring
4 the line to its full capacity.

5 That is the schedule on
6 which our evidence has been put before the National
7 Energy Board, on which our cost estimates have been
8 made, and I would add only two other remarks before
9 completing that as a statement of our schedule.

10 The first is that the
11 schedule is developed in order to meet the date on
12 which we think gas will be first available, which is
13 the end of 1982. If by chance we are too pessimistic
14 in that assessment, and if gas were available in 1981
15 then it's certainly within our competence and planning
16 to advance those dates by a year or more. In the
17 sense of when we could begin, we could begin very soon.
18 We could begin in months if all authorizations and other
19 factors were ready, but these are not physical limitations
20 of the applicant. They are a schedule designed to meet
21 what we believe will be available in gas production.

22 The second remark I'd like to
23 make is that I think you suggested in leading me
24 into this that I had said 1982 or probably later. All
25 I have actually said was that we are going ahead on
26 the schedule for operation by the end of 1982, and it's
27 going to be tough. We haven't changed our forecast to
28 suggest that the date will be later than 1982. Our
29 date is the end of 1982 to be operational.

30 Q So the company's plans

R. Blair
Cross-Exam by Sigler

1 have not changed as far as the scheduling material that
2 has been filed?

3 A There have been changes
4 over the past years, among all of the applicants, but
5 no, we're in no way announcing --

6 Q Your announcement here
7 today in evidence doesn't tell us of any changes in
8 your scheduling?

9 A No, none at all.
10 What I said today is completely consistent with what
11 we have before the National Energy Board in support
12 of our application.

13 Q But on the other hand,
14 you say that as a matter of practical or practicality
15 as much as the company desires or emphasizes first
16 the Mackenzie Valley Pipeline, you state that in
17 all likelihood that you foresee it being delayed until
18 the -- I think the differences between the people
19 of the Territories has been resolved.

20 I have trouble reconciling
21 what you said today. On one hand you've said that your
22 company's desires and emphasis is on constructing the
23 Mackenzie Valley Pipeline in accordance with your
24 original plans or the plans that have been filed with
25 this Inquiry to date .

26 On the other hand you state
27 that as a matter of practicality there's a likelihood
28 that it will be delayed while the people's problems
29 are being resolved.

30 A No sir, my trouble is

R. Blair
Cross-Exam by Sigler

1 in being communicative to you and not being too tight
2 on words but also in leaving a record that will be
3 precise in its words, and I don't --

4 THE COMMISSIONER: Excuse me,
5 Mr. Blair. Let me say what I understood your point
6 of view to be. You said that you felt that it would
7 be tough owing to the differences between peoples in
8 the Mackenzie Valley and the Western Arctic to get
9 under way before 1978 or 1979, and that you felt it
10 would be tough to do so even then. But that that was
11 really the schedule that you were looking to. Now is
12 that essentially the picture?

13 A Yes, exactly, and my
14 reason for not accepting and giving an affirmative
15 answer to the question is you're paying on the words
16 "in all likelihood", you were saying that I stated
17 "in all likelihood it would be 1982" and I don't believe
18 I have said that, sir. The judge is correct. What I
19 said is our schedule is 1982, and it will be tough.
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R. Blair
Cross-Exam by Sigler

MR. SIGLER:

Q That's my mistake then because my impression was from your evidence before lunch that the soonest was 1982 but that it would be delayed until these differences could be resolved, in all likelihood and likelihood was your word as I recall.

A Well, look, we're really together except I've never -- I didn't say, I'm sure, that in all likelihood it would be delayed. I just said it's going to be tough and if anything it will be later.

Q Very good. So, that clarifies that point for me.

Now, you've also stated that chronologically you felt, in your opinion at least, that the Alcan Highway line might be started first and the Mackenzie Valley line secondly in time?

A Yes.

Q I wonder if you could elaborate on that in the sense of how many years apart do you see the start-up periods being between the two lines?

A Well, the plan, schedules and engineering submissions and the whole works that has been filed for the Alcan Highway, Alaskan Highway project shows the schedule of it, being intended to be in operation at the end of 1980 and so comparing that with the end of 1982 schedule date that we've just discussed with the Mackenzie Valley pipeline, the

R. Blair
Cross-Exam by Sigler

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2 difference in time would be one or two years but again,
3 not by design, not by our design but by our interpretation
4 of what external circumstances will force it on each
5 of the two projects.

6 Q So the completion date
7 would be about two years between each of the two pro-
8 jects?

9 A That's correct.

10 Q What about the start-up
11 dates in terms of starting construction work. You've
12 used the years '78 or '79 in answer to my earlier
13 question about the start-up date for the Mackenzie
14 Valley line. Does that imply there would be a 1976 or
15 '77 start-up date for the Alaska Highway?

16 A No, the time spread
17 between the two, if these schedules were followed
18 would narrow and what we have shown in our schedule
19 in respect of the Alaskan Highway line is authorization
20 by about the end of 1977, so that if you're comparing,
21 if you are talking of authorization times, you're
22 comparing the end of 1977 with the authorization of
23 the Alaskan Highway line with the end of '78 or going
24 into '79 in respect of the Mackenzie Valley pipeline
25 and the time difference between the two projects narrows
26 to one year or somewhat more.

27 Q Now, you've alluded or
28 referred in your evidence to the social issues that
29 have come up in the context of the Mackenzie Valley
30 line and the issues that have been raised and that's

R. Blair
Cross-Exam by Sigler

1
2 been a factor in delaying the start of construction on
3 the Maple Leaf line .

4 A Not really, because I'd
5 like to remind you that I come back to the point that
6 the governing date in our schedule is the date in which
7 gas can be first available in production and so what
8 we've said is that that is the circumstance which sets
9 the date of the end of 1982 to be operational but that
10 it's going to be tough to meet that date for a number
11 of reasons which include the ones you've just spoken
12 of. I have not said that the events you've just spoken
13 of are in themselves a cause of delay at this time.

14 Q All right. I'm sorry
15 then for implying that in my question.

16 I take it that Foothills
17 shares a concern for the resolution of the social
18 issues that are being raised in the context of the
19 Mackenzie Valley line?

20 A Well, I think everybody
21 does, as far as I know.

22 Q Well, I wonder what
23 Foothills position would be as the owner of Foothills
24 Pipeline Yukon Limited, if the same social issues
25 were relevant to the context of building the Yukon line?

26 A It would be the same
27 concerns. Foothills position would be one of similar
28 concern.

29 Q So when you state now
30 that the construction of the Alaska Highway line will

1 commence prior to the construction of the Mackenzie
2 Valley line, you're presuming that the same social
3 issues won't be raised in the Yukon context and the
4 kind of issues are native land claims or impact on
5 municipalities and so on.

6 A I don't go quite -- no,
7 I don't go so far as to say I'm presuming that the
8 same issues will not be raised, but I do confirm to you
9 that to our best present information, the same issues
10 will not be so sharp or require so much time in their
11 resolution, as they will in the Mackenzie Valley. It's
12 just a judgement, but that is our judgement, which is
13 shared by a lot of other people looking at this situation
14 too.

15 Q I take it -- your last
16 reference in your evidence on page six in the material
17 circulated and the advantages of the construction of
18 the Alaska Highway line is that it would provide although
19 strictly as a backup, a shorter and different route
20 to connect the delta gas. I take it then that Foothills
21 has not ruled out the possibility of the Alaska route
22 providing the means of transportation of the Mackenzie
23 Valley gas -- Mackenzie Delta gas?

24 A Well, no, it would be
25 wrong for any company to rule out -- I'm sorry, I got
26 too close to the mike here. Wrong to rule out absolutely
27 and refuse consideration of any route. We've all got
28 to keep watching all the possibilities, but I have meant
29 to emphasize that in our view that possibility is really
30 a contingency or a fall-back one according to all present

1 information.

2 Q Because the problem
3 I had in reading that, is if that were the case, I
4 wouldn't see much of a difference between Foothills'
5 proposal or proposals and Arctic Gas proposal .

6 THE COMMISSIONER: Except
7 for the route would be different.

8 MR. SIGLER: Right.

9 A We see huge differences.
10 So many that I hardly know where to begin.

11 Q Well, I won't get into
12 that subject because as the Judge said earlier, he's
13 not interested.

14 If that were the case, it
15 would still be providing delta gas to Canadians
16 through that route, I take it? It wouldn't be taking
17 delta gas to the lower 48.

18 A Now, I'm sorry, I'm
19 lost, behind your questions.

20 Q I'm referring -- on page
21 six you say it would provide, although strictly as
22 a backup, a shorter and different route to connect
23 the delta gas. I just wanted you to confirm that
24 evidence to where it would be connected.

25 A Oh, I had Canadian
26 markets in mind, and excuse me, going back to that
27 question, I said I saw so many differences, were you
28 saying that if there were an Alaskan Highway route and
29 then if there were a Dempster Highway route, that the
30

R. Blair
Cross-Exam by Sigler

1
2 sum total of that --

3 THE COMMISSIONER: So that it
4 was a joint project? I thought that's what you were
5 getting at.

6 MR. SIGLER: Yes.

7 A Well, yes, in some
8 respects such a combination would be coming -- would
9 have quite a number of things in common with the Arctic
10 Gas project. I mean, we'd move gas from both areas
11 into both markets and that sort of thing, yes.

12 Q And --

13 A But that's not our
14 proposal.

15 Q And in the sense that
16 Foothills now has two projects, one to take the delta
17 gas to Canadian markets and another one of taking
18 American gas to markets in the lower 48, it's -- in
19 that sense it would seem now a little more of the same
20 kind of project that Arctic Gas is to -- maybe I'm
21 getting back on the same line that --

22 A You go too far --

23 Q -- Mr. Steeves was
24 on, and perhaps erroneously, but one impression that
25 is sensed, I think, in the communities in the north,
26 was that we were dealing with a Canadian project or
27 Canadian concern when we're talking of Foothills
28 Pipe Lines Limited. Now, we've got Foothills Pipe Lines
29 Limited talking about carrying American gas to American
30 markets through Canada. Maybe it's the same question

1 that Mr. Douglas asked. I wonder if you could comment
2 on that concern?

3 A Well, yes. First of
4 all, let me explain again, my not wanting to say yes
5 to your last question. There are many, many differences
6 between the present Maple Leaf project and the present
7 CAGPL projects. One of the differences is that the
8 CAGPL project would move Alaskan gas also, if you put
9 Alaskan gas down through the western Canadian pipeline
10 companies, you remove that difference and who could
11 help but agree with you to that stage, obviously, but
12 then what I was stopping at, is, you were going on
13 in your question saying that then, that the two are
14 the same, or you made it -- and there still remain
15 25 other differences. So, that's my only point of--

16 Q I guess my point I
17 was trying to get after or raise with you for discussion
18 was, the point that in terms of corporate concern in
19 marketing gas, you're dealing with marketing the same
20 gas to the same markets as the other applicant is.

21 A Well then, can I take
22 the second part of your question and respond to you
23 about the sort of answers we were giving Mr. Douglas?

24 What Mr. Steeves was referring
25 to was the one sentence in a transcript of many pages,
26 here of 20 odd pages which covered our appearance
27 before that Parliamentary Committee and in that appearance
28 we covered everything that you're speaking of very
29 intently and I'd refer this to you for a much more
30 complete answer than I should take time to give today,

R. Blair
Cross-Exam by Sigler

1
2 but in the appearance we said basically this, we explained
3 why we were in the project -- Alaskan Highway project
4 at all. We put all our opening emphasis on two things.
5 One, that our first love and loyalty was to the Maple
6 Leaf project. The second was that the current move --
7 the then current move by CAGPL to have our application
8 dismissed by the National Energy Board, we were going
9 to treat as desperate on their part and had nothing to
10 do it. We would stay, our case was in and would stay
11 in and they could think of us as hanging right in
12 with our application.

13 Now then, we went on then
14 to describe what we were doing in the Alaskan Highway
15 project at all and to explain that we had responded
16 to expressions of interest from Alaska, from within
17 the state companies and government people there and
18 to other people in the states who were saying this to us,
19 that the Maple Leaf project was all very well for Canada
20 and they could see our point about it, and it does a
21 lot of the kinds of things that Alaskans want done in
22 Alaska, but, that the Maple Leaf project just did
23 nothing at all for the continuing American problem of
24 how they were going to get that gas connected.

25 And we were also hearing in
26 the same period, now I'll summarize this as briefly
27 as I can, from people in the government of Canada,
28 who were saying that the Maple Leaf project could, in
29 the end, be an embarrassment to the government of
30 Canada, because if, the government of the United States

1 should approach the government of Canada in the next
2 year, as many have been suggesting will happen and
3 ask for Canadian views and participation in a project
4 to move the Alaskan gas and if the government of Canada
5 was convinced that the Maple Leaf project was the right
6 one for Canada, it would leave them high and dry with
7 nothing to tell the United States so they'd have to
8 go with El Paso and coming out of all of this, we became
9 persuaded that while our first and real interest was
10 in getting that Mackenzie Delta gas connection for the
11 Canadian purposes, that we could also properly participate
12 in another arrangement to move the Alaskan gas for
13 United States purposes and we decided we had better
14 co-operate and participate in that and that a project
15 could be devised. We think the Alaskan Highway project
16 has been devised in a way which will not be injurious
17 to Canada.
18

19 Now then, past that, and which
20 among other things would allow Canada to give an overland
21 access for the Alaskan gas, next year if necessary, to
22 meet the American schedule, without forcing a Canadian
23 decision in the first half of 1977 or some other date
24 which we would think of as being too early on the kind
25 of issues that are before this Inquiry and on this -- not
26 only the decision, but all of the settlements and the
27 procedure it will have to go through.

28 Well then, having got in
29 that far; our interest has been also in seeing
30 how the Mackenzie -- how the Alaskan Highway project

R. Blair
Cross-Exam by Sigler

1 can be turned into something constructive for Canada and
2 besides removing the pressure on the Mackenzie Valley
3 decision and we have -- believe that a number of ways
4 have been identified and they were all listed out
5 here to the parliamentary committee in which there are
6 advantages to Canada deriving from the Alaskan Highway
7 project in which Mr. Phillips was very enthusiastic and
8 after he'd given a number of those reasons, he spoke
9 as Mr. Steeves read.

R. Blair

Cross-Exam by Sigler

Cross-Exam by Goudge

1 Q My last comment is just
2 then to summarize what you've come here to tell us today
3 is that to dispell any rumors that you've alluded to,
4 to confirm that Foothills Pipe Lines Ltd.'s intention
5 is still to build the Mackenzie Valley line by 1982.

6 A To do it as soon as
7 possible -- as soon as possible and as our
8 highest corporate responsibility for connection of
9 gas from the Arctic and we believe that that can be
10 done by 1982 although we acknowledge it's going to be
11 tough.

12 Q Using the Mackenzie Valley
13 line.

14 A Using the Mackenzie Valley,
15 and just to be absolutely sure we're together, that
16 1982 is the date for the line to be in operation,
17 and if you're actually talking construction, the schedule
18 we intend is the one I read out to you here which could
19 start as early as '78, and in any case it would start
20 in 1979 in terms of field construction work.

21 MR. SIGLER: That's all I
22 wanted to ask you about.

23 THE COMMISSIONER: Thank you,
24 Mr. Sigler.

25 MR. GOUDGE: I just have one
26 short area, Mr. Blair, if I may, Mr. Commissioner.

27
28 CROSS-EXAMINATION BY MR. GOUDGE:

29 Q You've told us a little
30 today, sir, about the Alcan proposal. I take it the

R. Blair
Cross-Exam by Goudge

correct name for that is the Alaska Highway project,
is that what you call it?

A Well, in the days when
the agreement was signed a few months ago to proceed
with the project, we had to come to a nametag to put
on it. It became called the Northwest-Alcan Highway
proposal, Alcan being, of course, a word of some
currency, particularly in British Columbia as a nick-
name for the Alaskan Highway.

Q Well, let me call it
the Alcan project, just for simplicity.

A O.K.

Q It's a project that,
as I understand you, will transport only Alaskan gas
and will transport that gas only to the United States.
Is that so?

A Mainly that is so
except we have arranged that it will deliver Alaskan
gas to communities along the route in the Yukon which
would otherwise not get -- to Canadian communities
which would not have gas available from other sources.
Except for that gas, and also it will use Alaskan gas
for compressor fuel and pipeline operational use as
it passed through Canada, so that except for those
two areas, it's the net flow of Alaskan gas into
Canada and back out.

Q And I take it when the
Alaskan -- when the Alcan project is fully operative
it will be supplying a very large quantity of gas
from Alaska to the southern 48.

R. Blair
Cross-Exam by Goudge

1 A Not really, I would say
2 if you're thinking in sort of national terms, according
3 to the information that was given yesterday between
4 the producers and the state regulatory offices in
5 Alaska, the forecast flow of gas is two billion cubic
6 feet a day.

7 Q Two billion cubic feet?

8 A Yes, for a 20-year period,
9 which would be three-quarters of a trillion cubic feet
10 a year, and which would compare with what will then
11 be probably total gas consumption in United States of
12 about 25 trillion cubic feet a year, and so will re-
13 present about a 3% increase in -- or 3% replacement
14 supply to United States markets.

15 If you want another perspective,
16 as the gas comes through the Canadian system, it is
17 supposed that two-thirds of it will go through Alberta
18 and that to my company would represent about a 20%
19 increase in the quantities of gas that's moving across
20 or out of the Province of Alberta. So in those terms
21 it's not very large. Also still in terms of capital
22 cost it's a huge pipeline investment process.

23 Q And from one other
24 perspective, it's roughly the same quantity of Alaskan
25 gas as the Arctic Gas proposal foresees carrying,
26 roughly.

27 A Well, it -- the
28 quantities would be identical because the quantities
29 are not changed by the distinctions between the two
30 proposals.

R. Blair
Cross-Exam by Goudge

Q Yes.

A The Arctic Gas evidence has been based so far, I think, on 2½ billion cubic feet a day, and if the figure is only two or less, or whatever, they'll have to adjust to that also.

Q Yes. Now, sir, the one area that I'd like to raise with you relates to the remarks that were made by your counsel, Mr. Gibbs, speaking for Foothills, at the very beginning of this Inquiry, on March 3, 1975. He made a number of criticisms, as I know you're aware, of the Canadian Arctic Gas proposal at that time. One of them was in these terms, and if you'll bear with me I'd just like to read from the transcript at page 789, Mr. Gibbs said there that:

"With one significant exception, factors throughout our history as a nation, there has been insistence that main Canadian transportation and communication systems follow all Canadian routes, with only convenience connections across the United States border. The examples are present for all to see. The C.P.R., the Trans-Canada Highway, the telephone and telegraph systems, TransCanada Pipeline, Air Canada and so on. The exception, the consequences that are spoken of in sorrow by others more eloquent than I is the Columbia River Treaty, and this insistence,

R. Blair
Cross-Exam by Goudge

1 Mr. Commissioner, on all Canadian routes
2 has in mind, in my submission, been one
3 of the greatest single factors which has
4 preserved the integrity and sovereignty of
5 Canada. It seems incredible to me that there
6 would now be proposed at this stage in our
7 history that we should abandon all we have
8 learned and favor construction of what has
9 been described as the equivalent of a
10 Panama Canal across Western and Northern
11 Canada."

12 I take it Foothills' view at
13 that time was that it was a danger to Canada to have
14 across our heart-land, if you will, a transmission
15 system, the integrity of which was of such central
16 concern to the Americans, to a government other than
17 ours. Is that the way you would see the Foothills'
18 criticism made then?

19 A Yes, in part. It was
20 one aspect of the criticism.

21 Q Is that not as well
22 a criticism that can be made of the Alaskan Highway
23 project, the Alcan project?

24 A It's a matter of degree.
25 To some degree, yes. The answer has to be "Yes."
26 But I think it is fair to point out that what Mr.
27 Gibbs was referring to then was a project, the CAGPL
28 project which as well as running across Western Canada
29 would do so under a very substantial degree of United
30 States control, management influence, design, under

R. Blair
Cross-Exam by Goudge

1 in our view at least mainly United States control
2 and management and design, and that in the case of
3 the -- and also the CAGPL project we were conceiving
4 then would be a project having a capital cost of
5 several times the total cost of -- the total cumulative
6 cost of all gas transmission facilities in Canada.
7 It was a monster to us.

8 THE COMMISSIONER: It was what?

9 A A monster.

10 Q Oh, a monster?

11 A A monster. The Alaskan
12 Highway project does differ in that it involves a
13 separate Canadian ownership of the Canadian portions,
14 it's a good deal smaller. Another point we've made
15 about it is that in our view it would be well if it
16 were coupled with other American arrangements to move
17 Alaskan gas to, future increments of Alaskan gas supply
18 to markets in the States as an alternative so that
19 there wouldn't necessarily be a perpetual Canadian
20 responsibility to expand as, when, and whenever United
21 States wanted it done. So as a matter of degree it's
22 not as bad a Panama Canal to us as CAGPL looked then.
23 But I have to go along with you that the same factor
24 exists in the two projects.

25 MR. GOUDGE:

26 Q I take it to this
27 degree at least the two projects, the Alcan project
28 and the CAGSL project, are identical. They both
29 constitute major transmission systems carrying
30 two billion cubic feet a day of natural gas, roughly,
and would therefore be transmission systems, the

R. Blair
Cross-Exam by Goudge

1 integrity of which in Canada would be of vital
2 concern to Americana and their government.

3 A Yes. In the careful and
4 limited way that you have described that comparison,
5 I must agree with you.

6 O And is it your judgment
7 that that is a danger that can be mitigated or must
8 it simply be lived with?

9 A Well, I think it's a
10 danger that Canada must assess as a political decision
11 at the time, and another substantial difference between
12 the two kinds of projects is that in the case of
13 the CAGPL project, the thrust has been that this is
14 something good for Canada, that Canada, all Canadian
15 companies should support and should be approved here
16 as a beneficial to Canada because of these alleged
17 merits of piggybacking and economy of scale and so on.
18 In the case of the Alaskan Highway project, and this
19 is all borne out in our evidence before -- as a
20 matter of fact, I made my main emphasis in the two
21 Senate Standing Committees of the United States Senate,
22 the Commerce and the Interior and Insular Affairs
23 Committees, Senators Magnusson and Jackson, first subpoenaed
24 informally us to go to Washington and explain our
25 position. We really put the emphasis there on what
26 we're saying about the Alaskan Highway project is that
27 if the United States comes to Canada and asks for
28 such an access, and if at that time Canada decides
29 that taking into account all of the areas of negotia-
30 tion between Canada and United States, that it's in

R. Blair
Cross-Exam by Goudge

1 Canada's interest to afford such, and
2 accommodate such a desire from the United States, that
3 then we'll co-operate as utility companies in Canada
4 and do our part of the job, and they can be assured
5 that we're not going to ^{be} interfering or mischiev ous
6 in trying to redirect their gas or charge exorbitant
7 tariffs and that sort of thing.

8 But we really emphasized, and
9 that was the place to do it was in United States, that
10 read it this way, that this has got to take a Canadian
11 decision that Canada will live with such a project,
12 having regard to all of the other issues that may
13 exist between the countries. I don't presume to pre-
14 judge what the Canadian decision will be.

R. Blair
Cross-Exam by Goudge

Q I take it you would agree with me that it would be an appropriate factor to be considered in the political arena. That is, the judgment about the danger that we have discussed being acceptable or unacceptable.

A Yes I would. I have spoken to it very publicly with as much or more emphasis as you are giving it today.

Q The acceptability of it to be judged ultimately by the politicians?

A Yes.

MR. GOUDGE: Thank you. Those are all --

THE COMMISSIONER: You mean in the light of informed public opinion.

A I am sure.

MR. GOUDGE: Those are all the questions I have sir.

MR. HOLLINGWORTH: I hope you thank the source for those questions Mr. Goudge.

MR. GOUDGE: Mr. Gibbs.

THE COMMISSIONER: Did you have any further questions Mr. Steeves?

MR. STEEVES: Why do you ask me?
No I don't sir.

THE COMMISSIONER: Any re-examination?

MR. STEEVES: No, I don't thank you sir.

THE COMMISSIONER: All right.

R. Blair

1 Well thank you very much Mr. Blair and we appreciate
2 seeing you again and having the opportunity of consider-
3 ing your views. Thank you very much sir and we'll
4 adjourn the formal hearings until Monday at 11:00.
5 The Inquiry is adjourned until it reconvenes at Colville
6 Lake tomorrow, weather permitting.

7 (WITNESS ASIDE)

8 (PROCEEDINGS ADJOURNED TO AUGUST 23, 1976)

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Vol. 174

AUTHOR

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Vol. 174

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MACKENZIE VALLEY PIPELINE INQUIRY

Government
Publications

IN THE MATTER OF APPLICATIONS BY EACH OF

- (a) CANADIAN ARCTIC GAS PIPELINE LIMITED FOR A RIGHT-OF-WAY THAT MIGHT BE GRANTED ACROSS CROWN LANDS WITHIN THE YUKON TERRITORY AND THE NORTHWEST TERRITORIES, and
- (b) FOOTHILLS PIPE LINES LTD. FOR A RIGHT-OF-WAY THAT MIGHT BE GRANTED ACROSS CROWN LANDS WITHIN THE NORTHWEST TERRITORIES

FOR THE PURPOSE OF A PROPOSED MACKENZIE VALLEY PIPELINE

and

IN THE MATTER OF THE SOCIAL, ENVIRONMENTAL AND ECONOMIC IMPACT REGIONALLY OF THE CONSTRUCTION, OPERATION AND SUBSEQUENT ABANDONMENT OF THE ABOVE PROPOSED PIPELINE

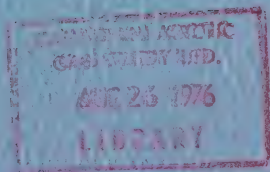
(Before the Honourable Mr. Justice Berger, Commissioner)

Yellowknife, N.W.T.

August 23, 1976

PROCEEDINGS AT INQUIRY

Volume 175



~~CONFIDENTIAL~~
Publication

APPEARANCES:

Mr. Ian G. Scott, Q.C.,
Mr. Stephen T. Goudge,
Mr. Alick Ryder, and
Mr. Ian Roland, for Mackenzie Valley Pipeline
Inquiry;

Mr. Pierre Genest, Q.C.,
Mr. Jack Marshall,
Mr. Darryl Carter, and
Mr. J.T. Steeves, for Canadian Arctic Gas Pipe-
line Limited;

Mr. Reginald Gibbs, Q.C.,
Mr. Alan Hollingworth, and
Mr. John W. Lutes, for Foothills Pipe Lines Ltd.;

Mr. Russell Anthony,
Prof. Alastair Lucas and
Mr. Garth Evans, for Canadian Arctic Resources
Committee;

Mr. Glen W. Bell and
Mr. Gerry Sutton, for Northwest Territories
Indian Brotherhood, and
Metis Association of the
Northwest Territories;

Mr. John Bayly and
Miss Lesley Lane, for Inuit Tapirisat of Canada,
and The Committee for
Original Peoples Entitle-
ment;

Mr. Ron Veale and
Mr. Allen Lueck, for The Council for the Yukon
Indians;

Mr. Carson Templeton, for Environment Protection
Board;

Mr. David H. Searle, Q.C.
for Northwest Territories
Chamber of Commerce;

Mr. Murray Sigler and for The Association of Munici-
palities;
Mr. David Reesor,

Mr. John Ballem, Q.C., for Producer Companies (Imperial,
Shell & Gulf);

Mrs. Joanne MacQuarrie, for Mental Health Association
of the Northwest Territor-
ies.

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WITNESSES FOR N.W.T. ASSOCIATION OF CHAMBERS OF COMMERCE:

Barry J. ASHTON

William Grant HINCHEY

John B. MACLEOD

- In Chief

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- Cross-Examination by Mr. Carter

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- Cross-Examination by Mr. Bayly

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- Cross-Examination by Mr. Roland

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EXHIBITS:

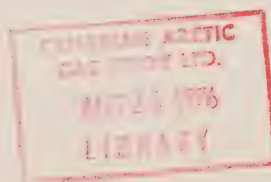
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& Yellowknife 27222

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Yellowknife, N.W.T.

August 23, 1976

(PROCEEDINGS RESUMED PURSUANT TO ADJOURNMENT)

MR. SCOTT: Mr. Commissioner,
I think we are ready. The first panel this morning
is to be presented by Mr. Searle.

MR. SEARLE: Mr. Commissioner,
the Northwest Territories Chamber of Commerce -- we
have here the witnesses for the Northwest Territories
Chamber of Commerce. As indicated previously, we will
be presenting only one panel of three persons. They
are there. There will be Mr. John MacLeod, who you've
heard before. Mr. Barry Ashton in the middle, from
Hay River; and Mr. Grant Hinchey, from Yellowknife.
We have filed copies of the report. We filed two
copies of each of the summaries which each of them
have provided, and of course we provided copies to
the press. So I believe all of the formalities in
that regard are out of the way. I assume you'd now
like me to simply have them each indicate their
qualifications, which are, I might say, appended in
each case to their summaries and they're found at the
very back. You may wish to dispense with Mr. MacLeod
doing that, as he has done that previously before you.

THE COMMISSIONER: We're
acquainted with Mr. MacLeod. That won't be necessary
so you can carry on with the other two.

MR. SEARLE: Thank you, sir.

Ashton, Hinchey, MacLeod
In Chief

BARRY J. ASHTON,

WILLIAM GRANT HINCHEY, sworn:

JOHN B. MACLEOD, resumed:

DIRECT EXAMINATION BY MR. SEARLE:

Q So then, Mr. Commissioner,
may I ask Mr. Barry Ashton to indicate to the Commission
his qualifications as set out in his personal resume?

WITNESS ASHTON: Mr. Berger,
I'm a chartered accountant in Hay River. I've been in
Hay River since 1971. I articulated with Coopers
Lybrand, formerly McDonald Currie in Moose Jaw and
Regina and Weyburn in Saskatchewan, completed my
articles with Price, Waterhouse & Company in Edmonton,
obtained my C.A. degree in 1970, and shortly thereafter
moved to Hay River to open the office for Fraser
Matthews & Company.

I am presently in Hay River,
as I mentioned. I'm president of the Hay River Chamber
and a the Northwest Territories Chamber of Commerce
of Commerce, /director of and a director of the Mackenzie Pipeline
Business Opportunities Board. I am married and I have three
children.

Q M r. Hinchey, would you
kindly indicate your qualifications?

WITNESS HINCHEY: Mr. Commis-
sioner, I graduated from Mount Royal College in
business administration in 1954, and received my C.G.A.
designation from the University of British Columbia
in 1962. I was employed in public practice in Kelowna,
British Columbia, from 1955 to 1973, in which I managed
the firm for 12 years. In 1973 I moved to Yellowknife

Ashton, Hinchey, MacLeod
In Chief

1 and am the senior partner in my firm, Hinchey & Company,
2 which is doing accounting services throughout the
3 Northwest Territories. I am a representative of our
4 Accounting Association for the Northwest Territories,
5 to the Prairie Region Board, and chairman of the
6 National Public Practice Committee, and director of
7 the Yellowknife and N.W.T. Chamber of Commerce.

8 I am married and have five
9 children living in Yellowknife.

10 MR. SEARLE:

Thank you, Mr. Hinchey.

11 Mr. Commissioner, I think before we start the evidence
12 of each of the three, I might ask you, sir, to turn
13 to the table of contents of the report. I would just
14 indicate how the evidence is broken up. In other
15 words, which witness will be dealing with which part.

16 In the table of contents No.
17 1 introduction, Mr. MacLeod will deal with that.

18 Part II, financial problems
19 and recommendations, items 1 to 7 there, Mr. Ashton
20 will be dealing with that.

21 No. 3, tendering and adminis-
22 tration of contracts, problems and recommendations,
23 items 1 to 8, Mr. Hinchey will deal with that.

24 Item 4, personnel problems
25 and recommendations, items 1 to 4 of that will be Mr.
26 MacLeod again.

27 Mr. MacLeod will also deal
28 with No. 5, transportation problems and recommendations.

29 Mr. Ashton will deal with No. 6.
30 miscellaneous operational considerations and

Ashton, Hinchey, MacLeod
In Chief

1 recommendations.

2 Mr. MacLeod will deal with
3 item 7, unionization.

4 Item 8, regulatory considera-
5 tions and recommendations, all of that part will be
6 Mr. Hinchey.

7 Mr. Hinchey will then do
8 No. 9 and 10, as well.

9 I wanted to say that, sir,
10 because it makes some sense if you're following the
11 summaries that have been provided and want to correlate
12 it back to the report. Essentially the division is
13 based upon each of the witness' dealing with the area
14 that they contributed to the report.

15 THE COMMISSIONER: Yes, fine.

16 MR. SEARLE: That being said
17 now, sir, unless there is anything else of a procedural
18 nature, I would be prepared to lead evidence, the
19 first witness being Mr. MacLeod.

20 (QUALIFICATIONS & EVIDENCE OF J.B. MACLEOD MARKED
21 EXHIBIT 708)

22 (QUALIFICATIONS & EVIDENCE OF B.J. ASHTON MARKED
23 EXHIBIT 709)

24 (QUALIFICATIONS & EVIDENCE OF W.G. HINCHEY MARKED
25 EXHIBIT 710)

26 (INVENTORY & ASSESSMENT OF BUSINESSES, PERSONNEL
27 & EQUIPMENT IN MACKENZIE VALLEY & YELLOWKNIFE
28 MARKED EXHIBIT 711)

Hinchey, Ashton, MacLeod
In Chief

1
2 WITNESS MacLEOD: During the
3 past year a study was undertaken by the members of
4 this panel for the N.W.T. Chamber of Commerce with
5 funds provided by the Mackenzie Valley Pipeline Inquiry.
6 The terms of reference were as follows:

7 Prepare an inventory of the
8 present business capacity in the Territories to handle
9 contracts and subcontracts on the proposed gas pipeline
10 and the potential capacity of business to expand in order
11 to benefit from future development brought about from
12 the pipeline.

13 During the course of this
14 study, an opportunity was extended to all segments of
15 the northern resident business community without regard
16 to ethnic origin and Chamber of Commerce affiliation,
17 to express themselves on matters of common concern.

18 The pertinent concerns of all
19 participants and the resulting recommendations comprise
20 this report which has now been filed with this Inquiry.

21 In my capacity as an independent
22 consultant to the Chamber, in addition to surveying
23 virtually all of the relevant northern businesses from
24 Tuktoyaktuk to Fort Simpson, the vast majority of which
25 were contacted personally, I have formulated the recommenda-
26 tions pertaining to this high impact area and assumed
27 the overall responsibility of reviewing the recommenda-
28 tions from the other areas of the study region which
29 were surveyed by Messrs. Hinchey and Ashton of Yellowknife
30 and Hay River respectively.

Hinchey, Ashton, MacLeod
In Chief

It was obvious from --

MR. SCOTT: Mr. MacLeod, if

I could interrupt you just for a moment. For those who don't have transcripts, if you could read just a little more slowly that you have been reading, that would be helpful I think.

A Okay. It was obvious from comments received while undertaking our study, that the majority of northern businessmen are anxious to participate in pipeline related construction and service contracts. At the same time, many of the smaller operators believe that they are unlikely to reap significant benefits from such development simply because of the limited scale of their operations in relation to their perception of the magnitude of pipeline contracts.

Northern air carriers, particularly those based in the delta, expressed more pessimistic views although their reasoning was based on factors other than their size. Accordingly, we have formulated several specific recommendations to alleviate the concerns of these two sectors.

Yellowknife businessmen recognize that their current operations were situated a great distance from proposed pipeline and gas plant construction areas. However, many indicated that if a pipeline operation center is located in Yellowknife, and if a lateral or spur line and related distribution facilities are constructed to the capital city, local businessmen would be in a better position to become

Hinchey, Ashton, MacLeod
In Chief

1
2 directly involved in pipeline related developments.

3 While the majority of respondents
4 expressed interest, primarily in work around Yellowknife,
5 some acknowledged that they would consider accepting
6 contracts in other major construction and staging
7 areas.

8 Despite the perceived potential
9 of pipeline developments in the western Arctic, a
10 number of local businessmen expressed concern over
11 certain factors which could limit their level of opportunity
12 and involvement and as well, benefits from participating
13 in such developments. For example, enthusiasm was
14 tempered somewhat by an uncertainty of the nature and
15 extent of pipeline and pipeline related developments
16 in the Mackenzie Valley region. Some local businessmen
17 noted that they would have to exercise caution in
18 expanding their firms to meet the perceived demands of
19 development simply because over expansion could prove
20 costly if construction is delayed or does not reach
21 projected levels.

22 Indeed, when one considers
23 that the proposed hydrocarbon development has now been
24 under consideration for several years, the delay referred
25 to above has actually occurred, in relation to previous
26 expectations.

27 At the time that our survey
28 was in its initial stages, in the spring of 1975, a
29 few firms had already completed the first of a multi-
30 phased capacity expansion programme. These and other

Hinchey, Ashton, MacLeod
In Chief

1
2 businesses are now experiencing considerable difficulty
3 as a result of the economic contraction which was
4 discernible toward the end of 1974 and which has
5 greatly intensified in subsequent months.

6 Toward the other end of the
7 valley, the economic slowdown has probably been more
8 severe but less abrupt. We would even go as far as
9 to speculate that enough businesses have left Fort
10 Simpson in recent months that the population may have
11 actually decreased on absolute terms. As might be
12 expected, the Yellowknife business community is much
13 less subject to economic fluctuations due to the presence
14 of the governmental apparatus, the growth of which is
15 at worst, modestly positive.

16 Throughout the study region
17 it was gratifying to hear that most entrepreneurs
18 were conscious of the dangers inherent in increasing
19 capacity to meet the requirements of the construction
20 period to a level which could not be sustained beyond
21 that phase.

22 In describing other deterrents,
23 many of the respondents noted a number of problem areas,
24 which, in general, tend to reflect difficulties
25 presently being experienced by northern businessmen.
26 It was felt that before local business could seriously
27 consider accepting contracts on the proposed Mackenzie
28 Valley natural gas pipeline, and related developments,
29 concerted effort should first be made to rectify
30 present problems.

Hinchey, Ashton, MacLeod
In Chief

1
2 Accordingly, we have considered
3 the major difficulties presently being experienced by
4 northern businessmen and have made recommendations on
5 the manner in which these problems could be solved or
6 their adverse consequences reduced.

7 These problems are inter-related
8 and should be viewed in a context which takes into
9 consideration a wide range of relevant factors.

10 The underlying philosophy of
11 my review was that the inherent specific difficulties
12 of operating a business on a permanent basis in the north
13 should be alleviated to the greatest possible extent
14 in order to give the resident operator an equal opportunity
15 to acquire contracts which are to be performed in the
16 north.

17 Consistent with the above,
18 all proposals advocating minimum quotas have been
19 rejected since it is conceivable that potential abuse
20 by a small unprincipled minority could outweigh the
21 possible advantages. In any event, the implementation
22 of our recommendations should render unnecessary
23 the imposition of such quotas.
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Hinchey, Ashton, MacLeod
In Chief

My review function involved the elimination of some recommendations due to economic unfeasibility, impossibility of implementation and impertinency, the adoption of others of our terms of reference, consolidation of those which were retained and the addition of some commentary.

Several proposals made to us related only to government contracts and were dropped on this basis, since those concerns were adequately covered in the "Report of the Task Force Formed to Study Problems Encountered by Northern Businessmen in Obtaining Federal Contracts".

However, we did consider the recommendations made in the preceding reports and retained several which were also raised in the course of our survey and applicable to the proposed hydrocarbon industry development.

The recommendations which were finally incorporated in our report may be divided into four broad categories.

1. There are those which are directed toward the Honourable Mr. Justice T. R. Berger for consideration in the formulation of the guidelines and regulations according to which a pipeline would be constructed.
2. We have proposed a few regulatory changes, particularly with respect to Territorial Ordinances. Many of these relate to current difficulties and the necessity of their implementation is not dependent upon pipeline development. However, these problems should be resolved before development proceeds.

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1 3. There are a few recommendations and comments
2 which do not fall within the realm of legislation and
3 are addressed to the northern business community.

4 Finally, we have retained
5 several recommendations of a general nature which are
6 not particularly relevant to our terms of reference
7 but translate valid concerns of northern entrepreneurs.
8 All recommendations have been formulated with the
9 intent that their implementation would provide lasting
10 benefits to the north. All members of this panel have
11 considered and are familiar with all the subjects
12 covered in our study. However, for purposes of presenta-
13 tion, each will limit his introductory testimony to
14 several specific problem areas.

15 At this point I would like to
16 add a couple of pages to my testimony and I think it
17 has been distributed this morning.

18 MR. SEARLE: I believe, Mr.
19 Commissioner that the addendum has been circulated and
20 that everyone should have it.

21 MR. SCOTT: Do you have a
22 copy Mr. Commissioner?

23 THE COMMISSIONER: Yes. It
24 begins:

25 "I am now appearing for the third and presumable
26 final time before this Inquiry."
27 Well we're working on it.

28 MR. SCOTT: Mr. Bayly said
29 that he think that's an excerpt from Dr. Usher's
30 statement.

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1 MR. SEARLE: Would you
2 proceed Mr. MacLeod.

3 A Yes. I am now proceeding
4 for the third and presumable final time before this
5 Inquiry and have presented my assessment of several
6 areas of potential socio-economic impact, including
7 demographic change and in-migration, local manpower
8 participation, fiscal matters, infrastructure and
9 entrepreneurial opportunities. Much of the cross-
10 examination to which I was subjected at my most recent
11 appearance before you dealt with the plight of the
12 northern business community and this will no doubt be
13 the case again today. My familiarity with this particu-
14 lar subject and my willingness to discuss it should not
15 be interpreted to mean that I believe that the welfare
16 of the business sector is the most significant variable
17 in the overall issue of hydrocarbon development in the
18 north. Rather, this is only one of many considerations
19 and should be placed in proper perspective.

20 I have felt compelled to make
21 this clarification because of the polarization which
22 has evolved over the entire question of northern develop-
23 ment. In particular, I have been disturbed by certain
24 references made with respect to the business sector in
25 the course of community hearings. On occasions, the
26 Chamber of Commerce has been perceived as lacking a
27 social conscience and advocating development whatever
28 the cost. Although I cannot deny that irresponsible
29 and egoistic elements exist within the business community
30 just as in many other organizations, I am most reluctant

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1 to accept generalizations. Nevertheless, my disapproval
2 of the views which have formed the basis of generaliza-
3 tions is reflected in my review of the recommendations
4 gathered in the course of our study. Thus, for example,
5 I have advocated a relatively restrictive definition of
6 northern business and have vigorously opposed the view
7 held by a minority of northern entrepreneurs that they
8 be entitled to unlimited business due to the sole fact
9 that they are residents of the north without regard to
10 their past operational performance.

11 Notwithstanding the above, there
12 is much justification for a special status for northern
13 resident operators as opposed to outside firms in
14 northern development. The local entrepreneur provides
15 necessary services to the local population on a continuous
16 basis, whatever the economic climate thereby subjecting
17 himself to pronounce swings in profitability. Outside
18 based operators on the other hand tend to be transient
19 and ride only the crests but not the troughs of economic
20 activity.

21 Another point worth stressing
22 is that some natives, especially in the delta have
23 exercised the entrepreneurial option. As a matter of
24 fact, in the course of my survey, I devoted above
25 average attention to native commercial undertakings and
26 can state with assurance that some of these businesses
27 are both substantial and successful.

28 In addition to native business-
29 men, there are also many non-native entrepreneurs who
30 are long time residents of the north and they too will

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have to bear the consequences of development or the
absence of it.

Federal Government pronouncements, dating back to 1970 if not earlier, suggested the inevitability of pipeline construction and operation. Quite naturally, the expectations of existing northern communities were heightened and entailed some expansion of capacity. Southerners also came down to pursue entrepreneurial endeavors and added further to the expansion which was already getting underway.

The level of economic activity in our study region has been receding for the past two years and is no longer sufficient to maintain the expanded capacity of the local private business sector. This occurrence is the basis for the current concerns expressed by the diverse constituents of the business community which was the object of this study.

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1 I'll^{now} turn to my original
2 text and highlight our observations and conclusions
3 with respect to manpower, unionization and transporta-
4 tion.

5 Manpower. Competition with
6 government for human resources. Many local businesses
7 reported a severe shortage of trained, skilled and
8 professional personnel. They list as contributing
9 factors the low skill levels and sporadic work habits
10 of the local labor force, the attractive benefits
11 provided by governments, which include subsidized
12 housing and travel benefits for holidays and illness,
13 little of which are presently being taxed. On the
14 other hand, a good number of businesses which provide
15 subsidies must include the value of the subsidy in the
16 taxable income of their employees under the direction
17 of their own tax advisors or the Department of National
18 Revenue. Self-employed businessmen, proprietorships,
19 and partnerships, who cannot pay themselves salaries
20 are unable to charge as an expense the additional cost
21 of living. Many such inequities and inconsistencies
22 exist in the subsidization of northerners with the
23 result that the typical local business is at a severe
24 disadvantage relative to the public sector with respect
25 to the recruitment of personnel.

26 Labour shortage in the trades
27 and professions is not a problem exclusive to the
28 north because demand for skilled personnel is high
29 all across Canada. Clearly an incentive of some form
30 is required to bring people to the N.W.T. Skilled

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1 personnel who would locate in the north are discouraged
2 by the lack of adequate accommodation at reasonable cost
3 unless substantial subsidies are offered. However, if
4 financial compensation is offered in the form of a
5 subsidy over and above the union wage scale, the sub-
6 sidy, if taxed, must be increased by as much as 40%
7 to provide the same take-home pay that a non-taxable
8 subsidy would provide. The cost of this subsidy as
9 a result of the increased tax burden would be reflected
10 in additional costs to the consumer. This scenario
11 provides some indication of the dilemma being faced
12 by northern business in its attempts to attract employees
13 and at the same time offer competitive services and
14 remain in operation.

5 We therefore recommend:

6 (1) that the inequities which presently exist among
7 the various approaches to subsidization of employees
8 in the N.W.T. should be recognized and guidelines should
9 be established before further development brings in
10 new forms of subsidization.

11 It is recommended that a
12 task force be created by the Department of Indian &
13 Northern Affairs to:

- 14 (a) Review all existing benefits provided to employees
15 of all government departments, Crown corporations,
16 industry and business;
17 (b) To study and receive briefs from all interested
18 parties on proposed methods of subsidization; and
19 (c) To prepare subsidy guidelines which would be
20 equitable for all residents of the N.W.T. and

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1 acceptable to the above-mentioned parties and
2 the Department of National Revenue and Taxation
3 and enforced by the latter.

4 (2) It is further recommended that, upon completion
5 of the above-mentioned study, that the present inequities
6 of subsidization of living quarters be replaced by a
7 substantial non-taxable home-owners' grant to residents
8 of the Northwest Territories. Implementation of
9 this recommendation would favor longer residency of im-
10 migrants to the area, and longer life expectancy of
11 homes (which are currently leased) of established
12 residents and an increase in residential construction.
13 Many provinces presently have some form of home-owners'
14 grant, even in areas where inequalities of subsidiza-
15 tion are non-existent.

16 2. Potential competition from the pipeline for human
17 resources.

18 A number of laborintensive
19 businesses noted they expected a severe labor drain,
20 particularly in the area of skilled personnel, as a
21 result of pipeline and related developments. The root
22 cause of this shift can be related to the high wage
23 rates and unlimited overtime offered by pipeline con-
24 tractors. While most respondents could not suggest
25 solutions to this extremely crucial problem area, some
26 had reluctantly resigned themselves to increasing
27 wages to a competitive level in order to maintain a
28 work force.

29 At the present time, in the
30 absence of any significant development project, the

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1 private sector is at a disadvantage relative to govern-
2 ments in recruiting the limited local skilled manpower
3 and people from outside the Territories. It is also
4 believed that this problem will be aggravated with the
5 arrival of another source of manpower demand although
6 northern business hopes to stem the loss of personnel
7 by offering higher wages despite the higher operating
8 cost and difficult readjustment period anticipated once
9 construction has been completed.

10 We feel that the adverse
11 effect of the pipeline on the manpower resources of
12 the private sector is somewhat exaggerated.

13 Firstly, the work that will
14 be required during the construction phase can be
15 divided into two categories: that which could be
16 handled by northern businesses and the specialized
17 pipelaying work which can only be performed by special-
18 ized southern firms. The manpower required by the latter
19 will be imported, in any case, and will not affect the
20 northern operator.

21 Secondly and by far the
22 largest component of the anticipated earnings associated
23 with employment in the first category will be overtime
24 pay as opposed to a drastic difference in base rates.
25 Therefore, to the extent that employees leave the
26 private non-pipeline sector to work on the pipeline,
27 fewer employees will remain with their current jobs to
28 handle the same, if not more, work. The local operator
29 will then find himself in a position to offer abundant
30 overtime, which is also the main attraction of pipeline

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1 construction employment. This will certainly entail an
2 increase in operating costs but this will be universally
3 recognized and therefore easily passed on in contracts.
4 In the post-construction period, less overtime will
5 be available in all firms and operating costs will
6 contract although they are not likely to return to
7 pre-development levels. With some imagination, the
8 magnitude of this readjustment could be further reduced.
9 3. Vocational training.

10 Some of the respondents
11 suggested that modifications of apprenticeship training
12 programs are required. For example, due to the seasonal
13 nature of much employment, apprentices cannot remain
14 in a training program on a year-around basis for the
15 time necessary to complete the apprenticeship. Most
16 programs require a four-year training period. Both
17 the apprentice and business are therefore in a rather
18 precarious position where neither can guarantee enough
19 work to meet the requirements of the apprenticeship
20 program.

21 2. While many respondents
22 welcome Canada Manpower on-the-job training programs,
23 it was felt that in some cases Manpower terms of
24 reference limited potential candidates from participat-
25 ing. Specific references were made to the exclusion
26 of individuals with previous training or post-secondary
27 education from the program.

28 3. Many interviewees,
29 particularly in the delta, emphasized the crucial need
30 for a training facility in that area, similar to the

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AVTC in Smith. Many delta residents are understandably reluctant to go to Smith with the result that much of the financial burden of vocational training is borne by the local contractor.

We therefore recommend:

1. That the capacity of the existing vocational training facilities (AVTC) must be increased to meet the current and anticipated increased requirements for skilled northern residents. Furthermore, program priorities should be revised in view of providing an appropriately trained work force for both pipeline construction and northern businesses.
2. Vocational training facilities should be established elsewhere in the study region, particularly in the delta.
3. More funding should be made available to the Canada Manpower Centre for on-the-job training programs as a means of increasing the number of trained northern residents. In addition, the program's terms of reference should be expanded to include retraining and/or upgrading of personnel with post secondary education.

The additional or revised programs would exclude all highly specialized pipelaying trades which would not be needed in the Northwest Territories on an ongoing basis.

Ideally, this training should continue during the construction period and could be accomplished by a commitment from the contractors to hire apprentices and semi-skilled personnel.

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1 4. Management Training. Although the quality of
2 management throughout the study region was quite good,
3 particularly in the larger centers where the local
4 entrepreneur is exposed to lively competition, many
5 businessmen recognized managerial deficiencies and
6 expressed a definite need for management training programs.
7 This awareness positively influenced our evaluation of
8 the quality of management.

9 Unionization. Many of the
10 peculiar characteristics of the north have been well
11 documented and set it apart from the rest of Canada.
12 I have already cited the housing problem and the associated
13 complexities of subsidization. Another anomaly related
14 to employment is that, contrary to the trends in the
15 south, northern businesses tend to have a greater need
16 for generalists rather than highly specialized personnel.
17 This phenomenon can be attributed to the generally
18 smaller scale of operations which in turn reflects a
19 smaller and scattered population and corresponding economic
20 base.

21 The unionization of all
22 employees in the private non-pipeline sector could
23 seriously restrict the employability of people possessing
24 a wide range of related general skills but little formal
25 education, in addition to entailing a substantial
26 increase in labor costs.

27 Of the three major points of
28 impact, the high degree of specialization and categoriza-
29 tion of labor inherent in unionism is considered by us
30 to be the most serious. Accordingly, the application by

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1 unions of their typically strict division of labor
2 principles to most northern businesses would be blatantly
3 inefficient and very inconsistent with the way that things
4 are done throughout most of the Northwest Territories.

5 Throughout the study region,
6 the majority of employers indicated that for a variety
7 of reasons, they preferred to meet their manpower require-
8 ments locally and recruit in the south only when local
9 hire is not possible.

10 Again we stress that these
11 requirements are often for generalists, and versatility
12 and a low level of specialization are precisely the
13 dominant characteristics of the work force of the
14 Northwest Territories. Thus, unionization could impede
15 the goal of priority hiring of resident northerners.

16 The second consequence, mainly
17 the general increase in wages, is probably the least
18 serious problems. Many firms interviewed, particularly
19 in the trades, already pay union wages if not more.
20 As we have stated in our report, substantial overtime
21 payments will be the main pecuniary attraction of pipe-
22 line work and we feel that many resident businesses will
23 be able to compete well on this level.

24 Finally, only at great expense
25 will northern firms be able to meet union requirements
26 with respect to other working conditions such as camp
27 accommodation. What we have already stated with regard
28 to the inequalities of subsidization also applies here.
29 It is likely that the unions will strive to apply the
30 same standards in the north as they presently do in the

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south. Unfortunately, such standards are not easily attainable here as elsewhere and, by union criteria, many northern employers own living conditions might not even obtain approval. Even at the present time, fresh meat and produce are seasonally difficult to obtain in many settlements, so how can the local contractor be expected to do better?

These are only several considerations which contributed to the negative attitude of most northern businessmen on the union issue. This problem has prompted much discussion and produced numerous suggestions. Several respondents emphatically argued that the entire pipeline job be "open shop" but we are of the opinion that this suggestion is unrealistic.

An alternative would be to designate the prime contracts as union and request that the successful pipeline applicant and producer companies retain some of the sub-contracts which they could tender themselves directly to non-union northern firms. We believe that this approach could be operational provided that these subcontracts be removed both geographically and in terms of time scheduling from unionized jobs. This proposal could be reinforced through appropriate amendments to the Labor Standards Ordinance as to provide for an increase in these standards. It might then be possible to obtain the advantages of unionization without the unnecessary inherent constraints.

Briefly then, we believe the central issues to be economics and northern realism. The welfare of the northern worker is not likely to be any

better as the result of unionization than if the preceding proposal be adopted. Indeed, the contrary could occur, depending upon the hiring procedures- which will be ultimately adopted.

Development of an all weather road system within the delta and a road link to the south would entail a sharp reduction in operating costs and prices in the area. For this and other reasons, it is my understanding that the N.W.T. Chamber of Commerce believes that the key to economic development in the north lies in greatly expanded transportation facilities, particularly with respect to the highway system. Although I do not deny the possibility of this position, I think that it would be most unwise to aggressively pursue highway construction either before or during the undertaking of a project as substantial as proposed -- as that proposed by the hydrocarbon industry. After all, it must be recognized that the envisaged economic benefits cannot be obtained without some social cost, the latter consisting of the aggravation of chronic transient problems such as we have in Inuvik and the risk that this problem might spread to the surrounding settlements. It is in this spirit we recommend that:

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1 1. That the Dempster highway be extended toward the
2 delta on the understanding that a portion remain in-
3 complete until termination of pipeline and gas plant
4 construction. This unfinished section would be open
5 in the winter on a restricted basis to allow for the
6 construction of pipeline and gas plant construction
7 materials. Ideally, this short incomplete portion would
8 be generously endowed with creeks, ponds, swamps and
9 similar obstacles to transit as to render summer use of
10 the highway impossible and thereby close this avenue to
11 transients coming into the area on a speculation of ob-
12 taining work or pursuing any other endeavors. The
13 intent of this compromise proposal is to minimize the
14 creation of the type of transient problem which has
15 occurred in Alaska.

16 2. That an all weather road be built without undue
17 delay between Inuvik and Tuktoyaktuk.

18 With respect to the Yellowknife
19 area and the upper Mackenzie, in our report, we have
20 a couple of recommendations with respect to improvements
21 of the existing road network. The implementation of
22 these recommendations could provide lasting economic
23 benefits to the region at virtually no social cost. These
24 improvements would be financially expensive but could be
25 justified if needed for pipeline construction activity.

26 We therefore recommend:

- 27 i That a bridge be constructed across the Mackenzie
28 River on the Mackenzie highway, and,
29 ii That the N.W.T. portion of the Mackenzie highway
30 be considerable upgraded with serious consideration given

1
2 WITNESS ASHTON: I believe
3 the main thrust of our presentation to be the maximum
4 participation of the northern businessmen
5 in development in the Northwest Territories.

6 To realize this goal, resources
7 must be made readily available to enable a businessperson
8 to compete on an equal basis with others.

9 Mr. MacLeod has mentioned
10 manpower, that is one resource, I believe that financing
11 is another resource which must also be made readily
12 available to the northern businessman.

13 Obviously the charter banks
14 are the most important source of financing for northern
15 business people and I feel generally that the banks
16 in the north serve the business communities well. It
17 varies from community to community, but generally speaking,
18 the banks are attempting to help and finance the northern
19 businessman.

20 A major criterion of operating
21 a successful business is a good working relationship
22 with the bank. Any problems that the northern
23 businessman seems to have with the banks is in
24 establishing this good working relationship and I feel
25 that there are three reasons why this good working
26 relationship is difficult to establish. There's a
27 frequent change of managers. There's a certain unfami-
28 liarity of northern development by the regional offices
29 and there's some inexperience of some of the bank
30 managers in the areas of commercial finance.

1
2 The managers in the north
3 are here from anywhere from eight months to years.

4 THE COMMISSIONER: Eight
5 months to what?

6 A To a number of years.

7 Q Oh.

8 A I haven't --

9 Q There's no set term of
10 service laid down by the bank.

11 A It varies from community
12 to community. I feel that -- some of the banks are
13 two years, some of them are three. I believe in
14 Yellowknife some of them are even longer. I've been
15 in Hay River for five years and both banks, I've seen
16 four managers in both banks. So, it doesn't really
17 extend a very long time.

18 Now, the problems that this
19 gives rise to are quite evident really. A person who
20 is dealing with a bank has to establish good contact.
21 The bank manager has to know the history of his business,
22 the problems of his business and be available to help
23 him, quite often in the spur of a moment and if he
24 does not know this history and these problems he cannot
25 do that.

26 With the frequent change of
27 managers, it's a never ending battle for the businessmen
28 to re-establish this communication with his banker.

29 The regional offices which
30 approve many of the larger loans, and in a lot of cases

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1
2 anything above three or five thousand dollars are some-
3 times quite unfamiliar with development in the north.
4 I have a specific example, in Hay River, one of my
5 clients was applying for a loan to buy a crew boat and
6 his business was located on Vale Island, for those of
7 you who don't know Hay River, Vale Island is connected
8 by road and rail across about 50 yards of water from
9 the mainland. The regional office thought that he
10 was buying this crew boat to transport his employees
11 from the mainland to the Island so that they could
12 work. It was quite evident that they weren't aware
13 of what the situation was.

14 Thirdly, many of the bank
15 managers, which come to areas in the north, and I'm
16 not generalizing here, I'm just saying some, have
17 a relatively small experience with commercial finance.
18 A lot of them come from Alberta, where they have been
19 in a small branch in a basically consumer -agricultural
20 type situation. They come to the north where there
21 is a fair amount of business finance, commercial
22 finance within the community and they have to learn
23 this, which, I guess everyone does at some point.

24 However, I feel that if the
25 banks were encouraged to provide managers for a longer
26 period of time, all three of these problems would
27 be substantially rectified.

28 I feel then, that on behalf
29 of the Northwest Territories Chamber of Commerce,
30 that's our recommendation, that the banks be encouraged

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1
2 to provide managers in their northern branches for a
3 longer period of time, three years at a minimum, I would
4 say, five years preferably. This way the businessman
5 can communicate with his banker. They will be more
6 familiar with his history and his problems and many of
7 the problems related to obtaining financing which do
8 arise. would not arise if this situation existed.

9 There's one other area that's
10 not in my notes, relating to banks, what they are doing
11 now and I believe Mr. Hinchey will be touching on this
12 area later, and it's in relation to bonding, the banks
13 are now providing a service which is very lucrative to
14 them, that's providing cash bonding for contractors,
15 so that they can carry on contracts.

16 Mr. Hinchey will be getting
17 into the bond problem and I feel that if the banks were
18 encouraged to do more of this, although it is expensive
19 to the businessman, it's an alleviation to the problem
20 of obtaining bonding in the Northwest Territories
21 at the present time.

22 Credit unions are fairly
23 new in the Northwest Territories and I don't have many
24 comments on them. They are expanding their own facilities
25 to business and I feel, providing a required competitive
26 source of financing.

27 One other area is the Bank
28 Act will be amended, I believe in about nine or ten
29 days. This is done only once every ten years. I don't
30

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1
2 know what effect this is going to have on the present
3 situation. Hopefully it will lessen the conservatism
4 of the Canadian banking system somewhat.

5 Another major source of
6 financing for northern businessman are the government
7 loan funds. There's the Federal Business Development
8 Bank, which is a a federal government loan fund, and
9 the three loan funds of the Territorial government,
10 the Small Business Loan Fund, the Indian Economic Develop-
11 ment Loan Fund, and the Eskimo Loan Fund. We have a
12 few recommendations relating to these areas. With
13 relation to the Federal Business Development Bank, we
14 feel that there should be a permanent office established
15 in Yellowknife to streamline the application and approval
16 of financing within the Northwest Territories. Again,
17 I feel that the FBDB is providing a good service
18 presently. Their loan officers are coming to the north
19 quite frequently and they visit most of the communities.

20 However, the same problem
21 here arises as with the chartered banks, the loans officers
22 change from one trip to the next. There appears to be
23 little communication between loans officers. One loans
24 officer is not aware of the situation on a file, so he
25 can't be asked any questions and therefore there's no
26 continuity and we feel that the establishment of a
27 permanent Yellowknife office would reduce this and
28 certainly increase the opportunity for the northern
29 businessman to obtain financing from the FBDB.

30 With relation to the Territorial

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1
2 Government Loan Funds, we hope that the government
3 of the Northwest Territories Loan Funds will be expanded
4 to provide additional inventory financing. I believe
5 that this has been changed to a certain degree, they
6 are looking at inventory financing, whereas previous
7 to just recently, they completely ignored
8 inventory financing. They could not provide inventory
9 financing within their terms of reference.
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In Chief

1 As you are probably aware,
2 the businessman in the Northwest Territories has to
3 carry a larger inventory than a lot of southern
4 retailers, and sometimes obtaining this financing is
5 quite difficult, because neither the banks nor the
6 Government of the Northwest Territories prefer to
7 look at it.

8 We also would recommend that
9 the increase in the small business loan fund and the
10 Eskimo loan fund to \$100,000 from the present \$50,000.
11 I believe also this is being looked at by the Territorial
12 Government. \$50,000 financing for a capital project
13 is getting to be a fairly small amount. We feel that
14 this loan limit should be raised.

15 We also feel that the rate
16 of interest on financing from the three Governments of
17 the Northwest Territories loan funds should be equalized.

18 Mortgage funding appears to
19 be in adequate supply at the present time. It was not
20 the case when this report was being prepared, which
21 as you know was done over the last year and a half.
22 We feel, however, that there should be provision made
23 to ensure the availability of mortgage financing during
24 a period of growth, and also a structuring of maximum
25 mortgage amounts within the Northwest Territories to
26 suit the isolated communities. It's far more expensive
27 to build a house in INuvik than it is in Hay River,
28 and accordingly the maximum mortgage amount available
29 should be structured to solve this problem.

30 Finance companies, acceptance

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1 companies, are very willing to lend money to business-
2 men for equipment financing. I expect that they will
3 continue to provide equipment financing in the future
4 and I really have no comments regarding finance
5 companies.

6 Above all, I feel that in
7 relation to financing, the businessman must be given
8 adequate lead time on any development project so that
9 he can analyze and obtain the required financing.
10 I believe that the recommendations mentioned will
11 assist northerners to participate in any development
12 including a possible pipeline development.

13 Under "Miscellaneous Considera-
14 tions", I am restricting my comments to Crown corpora-
15 tions briefly. Crown corporations are necessary. I feel
16 that they were established to provide a service to the
17 consumer that could not be provided by anyone else
18 at a reasonable cost. However, I feel that Crown
19 corporations not only recently but over the years have
20 expanded to the point where they are providing service
21 which they should not be providing. This service should
22 be provided by private enterprise.

23 The Canadian Chamber of
24 Commerce in a policy statement says that:

25 "The Federal Government should discourage
26 expansion of Crown corporations into service
27 areas where competitive enterprise is able
28 and willing to provide the service to adequate
29 standard and at an acceptable cost."

30 I believe this restriction

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1 is necessary in order to promote industrial and
2 commercial progress in Canada. A couple of examples
3 are N.T.C.L. in their trucking. They are competing
4 quite strenuously in the delta particularly with the
5 trucking firms there. Mr. MacLeod can probably go
6 in into this/more detail, he's familiar with that area.
7 But I am aware of, from what he's told me, that they
8 are competing on local hauls with private enterprise
9 and I don't feel that this is proper utilization of
10 a Crown corporation.

11 N.C.P.C. --

12 THE COMMISSIONER: How do they
13 account for it? DO they have a separate balance
14 sheet for their Trucking Division? Do you know,
15 Mr. MacLeod?

16 WITNESS MACLEOD: Not as far
17 as I know.

18 THE COMMISSIONER: So a
19 comparison of the true cost of the service they are
20 providing is perhaps difficult to arrive at. That's
21 the point I'm getting at.

22 A. I think
23 they're probably running their trucking operations
24 at a loss, as long as they get some contribution to
25 overhead.

26 Q As long as they what?

27 A As long as they get
28 some contribution to overhead.

29 Q Yes.

30 WITNESS ASHTON: N.C.P.C. is

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1 another prime example of a Crown corporation which is
2 restricting the expansion of private enterprise.
3 Recently in Fort McMurray they had a rate reduction in
4 power. It seems ludicrous for us in the north, but the
5 reason they had this reduction in power was because
6 Alberta Power was able to tie into their grid system
7 in Alberta; in Hay River Alberta Power has been attempt-
8 ing to do this for three years and cannot because of
9 N.C.P.C.'s policy of restricting transmission and
10 distribution of power within the Northwest Territories.
11 I feel that this is totally
12 unacceptable, it's a restriction that's not necessary.
13 It's a Crown corporation infringing upon private
14 enterprise to a point where it's stifling private
15 enterprise. I sound like a capitalist, I guess.

16 John dealt pretty thoroughly
17 with trades people.

18 THE COMMISSIONER: You were
19 starting with banks being very conservative a few
20 minutes ago, so you're entitled to move around a bit.

21 A I have no further
22 comments. The other area under "Miscellaneous
23 Considerations", was relating to trades people and
24 I think John covered that pretty thoroughly.

25 MR. SEARLE: Thank you, Mr.
26 Ashton. Mr. Hinchey?

27 WITNESS HINCHEY: Mr.
28 Commissioner, I'll start with tendering and administration
29 of contracts, problems and recommendations.

30 Tendering notices. Concern was

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1 expressed by a number of respondents that some contracts
2 are advertised in a manner which gives advantage to
3 southern bidders. In this context, the northern business-
4 man often finds when he becomes aware of the certain
5 contract, there is little time to prepare and submit
6 a bid. Moreover, any contract in the north requires
7 additional lead time due to the inavailability to
8 obtain the supplies and equipment.

9 Recommendations:

10 1. That a system is required to ensure that all
11 northern businesses are made aware of contracts to
12 be let at the local level, in particular in the regional
13 or Territorial level in general. The ideal vehicle
14 to achieve this objective would be a bid depository,
15 the creation of which we strongly recommend.

16 2. It is further recommended that tenders should be
17 advertised in the north prior to Southern Canada, that
18 northern bidders be given a longer period of time in
19 which to prepare and submit their contract proposal,
20 and that tenders be closed in the north at the bid
21 despository.

22 3. Based on our compilation of businesses and their
23 capabilities, a list of firms eligible for specific
24 contracts should be drawn up and an invitation to
25 tender be addressed to firms who are capable of tender-
26 ing on contracts in their field of competence.

27 4. Immediate notification of contract awards should
28 be endeavored.

29 2. Bonding. An important
30 issue related to the above concerns bonding. Some

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1 businessmen argue that even if they are capable of
2 completing large contracts, bonding would be difficult
3 to obtain. Performance and material bonding is required
4 for most government contracts. Although many businesses
5 have never applied, either because of their limited
6 size or other reasons, those contractors who have
7 applied have found it extremely difficult and only
8 few have been successful.

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1 The contracting companies in
2 the Northwest Territories are relatively new corporations.
3 They are continuously expanding by reinvesting profits
4 to increase and upgrade their operational assets, causing
5 a severe drain on working capital. Inadequate working
6 capital, by surety company standards is a major reason
7 why bonding applications are rejected. Thus, small
8 and medium sized expanding corporations are penalized
9 because they choose to reinvest corporate profits.

10 There's a comment in an inter-
11 view with an executive brokerage firm. and one of the directors
12 of the Canadian Insurance Group advised that they look
13 to a 10:1 working capital ratio north of the 60th
14 parallel which is an impossibility. If we are in that
15 kind of position, the dollars would be available to the
16 individual contractor.

17 This is also an increasing
18 concern in Alaska as the underwriters' requirements
19 north of the 60th parallel are far in excess of those
20 in the south.

21 It is worthwhile to point out
22 however, that this difficulty is experienced throughout
23 the country by new businesses without a proven track
24 record. Initial bonding is always the most difficult to
25 obtain. The problem is probably more serious here since,
26 to our knowledge, there are only two surety companies
27 who have any interest in writing bonds in the Northwest
28 Territories. We understand that this same situation
29 exists in Alaska and there has been several meetings of
30 recent trying to establish better bonding facilities

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1 within that state.

2 It can be concluded from the
3 above that many contractors are excluded from bidding
4 some contracts simply because of the large dollar value
5 and stringent bonding requirements.

6 We received several suggestions
7 from interviewees on this matter but many, if implemented,
8 would have had the effect of nullifying the original
9 intent of the bonding concept.

10 We note, however, that some
11 provincial governments offer assistance to contractors
12 by way of bid depositories or by direct bonding via
13 provincial government insurance corporations. There is
14 no assistance of this nature in the N.W.T.

15 Finally, some municipalities
16 when tendering contracts, purchase the materials for
17 use by the contractor. The contract then becomes a
18 service contract and the contractor's working capital
19 is not tied up in the materials.

20 Recommendations. The inability
21 to obtain bonding should not unduly restrict the
22 participation of northern business in pipeline development.
23 Accordingly, we propose flexible solutions of both a
24 medium and long term nature.

25 1. Over the long term, we encourage more surety
26 companies to undertake performance bonding in the
27 Territories.

28 2. Alternatively, should increased competition in
29 this area fail to materialize, we recommend for considera-
30 tion the establishment of a territorial corporation --

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1 insurance corporation for the sole purpose of providing
2 bid and performance bonding for companies operating
3 in the Northwest Territories.

4 3. We recommend as a second alternative encouraging
5 banks to offer letters of guarantee in support of bonding
6 applications, which as Mr. Ashton has pointed out is
7 being done in some instances.

8 Should these recommendations
9 not be adequately implemented prior to the commencement
10 of pipeline and gas plant construction, we put forward
11 the following recommendations.

12 1. Some contracts can be tendered on a "piece-meal"
13 basis, thus enabling small businesses to participate
14 because they can obtain bonding within certain limits.
15 This in no way restricts the larger corporations from
16 tendering the total contract.

17 2. In cases where bonding is unobtainable, this require-
18 ment will be waived by the successful pipeline applicant
19 and producers in return for the right to oversee the
20 operations of the local subcontractor in order to ensure
21 satisfactory operational performance. Inadequate
22 performance would justify resiliation of the contract by
23 the pipeline applicant or producer involved and thereby
24 stem impending loss.

25 Bid Differential.

26 THE COMMISSIONER: Excuse me.
27 I think I know what all of that means, but resiliation
28 of the contract?

29 A Well the concept would be
30 that if they are overseeing it and the contractor is not

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1 performing under the terms that they could terminate the
2 arrangements with that contractor and reappoint somebody
3 else to carry on.

4 It is currently the practice of
5 certain municipalities to extend to northern contractors
6 a bid differential relative to outside competitors in
7 order to compensate the former for the higher operating
8 costs in northern Canada. The southern operator who
9 takes on a contract in the north assumes these higher
10 costs, but only for the duration of the contract on
11 completion of which he promptly returns south. Many of
12 these southern firms have little or no local overhead
13 even during their brief stay in the north.

14 For practical reasons, we accept
15 the bid differential concept although it is difficult
16 to quantify to our satisfaction. The availability of
17 supplies and services at the local level on a permanent
18 basis is of considerable benefit to the community, par-
19 ticularly in terms of convenience. However, the continuous
20 provision of such benefits definitely entails higher
21 operating costs (for example, power, accommodation) which
22 are accentuated by the seasonal nature of economic
23 activity. These costs, which are a function of the degree
24 of isolation would be compensated for by a bid differen-
25 tial which in the case of materials would be determined
26 over and above the specific transportation charges
27 applicable to specific supplies.

28 Our recommendation is that
29 we propose that a scaled tender differential allowance
30 be accorded to northern contractors. This differential

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1 would be minimal in the Hay River area, slightly higher
2 in Yellowknife and greater still in centers without
3 road links to the south with the highest differential
4 perhaps 15% being accorded to isolated settlements.

5 Due to the difficulty in
6 determining an adequate permissible differential, we
7 offer the alternative of using all northern bid lists in
8 cases where the number of local firms and their capacity
9 are sufficient in relation to the amount of work to be
10 performed under the specific contracts where this approach
11 might be adopted. A modified form of this procedure is
12 being used in Alaska. It is of particular interest where
13 small contracts are involved.

14 Materials Supply contracts.
15 The recommendations that all tenders for materials and
16 supplies should be called F.O.B. place of use rather
17 than origin of supply. This would provide incentive to
18 develop a substantial inventory at the local level and the
19 resulting increase in turnover should entail a reduction
20 in prices and thereby increase the patronage of northern
21 businesses who are presently dealing with southern
22 suppliers. Hopefully, the ensuing supply pattern would
23 persist once pipeline construction had been completed and
24 would still allow price levels to remain lower than at
25 present without adversely affecting the profitability of
26 the local supplier.

27 Two. It is further recommended
28 that the successful applicant and his agents establish a
29 purchasing office in the Mackenzie Valley to deal with
30 resident businesses. This office would prepare and

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distribute to the Bid Depository and its sub-offices and other designated locations lists of items required and guidelines for the types and value of contracts that can be purchased:

- directly without bidding
- through local or regional bidding
- with bidding throughout the Mackenzie Valley, and,
- with completely open bidding

The frequency of application of these four approaches would be mainly a direct function of the amounts involved and the number of eligible resident bidders. Furthermore, the spirit of this proposal could also apply to service contracts as well.

We are opposed to making any stipulation that any minimum of supplies be obtained locally. It is conceivable that an individual local supplier will not adjust his prices downward subsequent to an increase in turnover. Any prime contractor forced to deal with such an individual would merely increase his own capital and operating costs, perhaps substantially to the sole benefit of the local supplier without creating the potential long term benefit which we have described above.

The pipeline and producer companies and their agents would be expected to obtain materials and services locally, subject to the following recommendations:

- should the lowest price quoted by eligible northern suppliers exceed the bid differential allowable in their respective regions, the pipeline, producer companies and their agents should be permitted to call for open tender.

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1 As to minimize price infla-
2 tion at the local level, we recommend that prime
3 contractors consult with local suppliers in view of
4 exceeding the latter's ability to supply. The onus
5 of application of this recommendation lies, we think,
6 on the local supplier. The local Chamber of Commerce
7 could conceivably serve some regulatory function.

8 Air charter contracts. Unlike
9 most northern businessmen who demonstrated enthusiasm
10 for pipeline development, air charter operators
11 expressed reserve and considerable pessimism in light
12 of their poor experience with both Federal and Terri-
13 torial Governments. Some of these problems have already
14 been outlined in the

15 "Report of the Task Force Formed to Study
16 Problems Encountered by Northern Businessmen
17 in Obtaining Federal Contracts."

18 We conclude that if northern air charter operators do
19 not receive equitable treatment from the pipeline and
20 producer companies, pipeline development is likely to
21 accelerate the deterioration of the position of the
22 northern operator relative to outside based
23 competitors.

24 Recommendation: In addition
25 to applying all of the relevant above recommendations
26 to this sector, tender requirements for air charter
27 contracts should specify job requirements and permit
28 use of equivalent aircraft.

29 Additional recommendations
30 dealing with this industry are covered in the

regulatory considerations section of this report.

Recommendation: That where possible contracts should be structured to accommodate small and medium sized northern based businesses.

Acting as an intermediary between the northern business community, the pipeline company, their contractors and unions;

Registering all northern businesses interested in participating in pipeline and pipeline-related contracts, and other businesses in the Mackenzie

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1 District, i.e. manpower, equipment, fields of
2 experience;

3 3. Maintaining an inventory of personnel, equipment
4 and supplies available in the Mackenzie District;

5 4. Providing training services for its participants,
6 particularly in the area of business management and
7 related subject areas;

8 5. Maintaining or associating itself with a bid
9 depository operating in the Northwest Territories; and

10 6. Conduct studies on particular problems related
11 to the responsibilities, bid depositories and
12 alternative bonding systems.

13 This Association would be
14 funded by grants from the Federal and Territorial
15 Governments and the successful applicant. Individual
16 businesses would pay a users fee for services rendered
17 by the Association.

18 The regulatory considerations
19 and recommendations. The purpose of this section
20 is to provide some comment on the impact of regulation
21 by Federal, Territorial and Municipal Governments as
22 related to problems encountered within the northern
23 business community. As many of the problems and re-
24 commendations concern specific and diversified topic
25 areas, the presentation format has been altered slightly
26 to provide recommendations immediately following the
27 discussion of problems. It should be noted that while
28 the list is fairly extensive, it primarily reflects the
29 response of business people during the survey
30 period, March to October '75. Depending upon the time

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1 and circumstances, other problem areas could be
2 anticipated and some mentioned here could be alleviated.

3 Federal regulations. A
4 great deal of criticism was received from the local
5 air charter firms with reference to enforcement of
6 Ministry of Transport regulations. The following
7 problem areas were outlined:

8 Some respondents noted that
9 non-commercial carriers are carrying out extensive
10 commercial type operations in the area. The Ministry
11 of Transport regulations which prohibit non-commercial
12 carriers from carrying out a commercial operation are
13 not being enforced. It was estimated that about 10%
14 of the aviation business in the Yellowknife area is
15 carried out by unlicensed commercial carriers and the
16 corresponding percentage in the delta is believe to be
17 in the order of 50%. In some cases, the licensed
18 operator has been forced to disregard or bend the rules
19 to remain competitive. Many hydro-carbon related
20 firms charter aircraft for their own needs and bypass
21 the mainline carrier. Although the practice is legitimate
22 it should be discouraged, so as to increase load factors
23 on scheduled mainline flights and expand use of local
24 air charter operators.

25 A second complaint concerned
26 the notion that the requirements for air worthiness
27 certificates are not being stringent enough and existing
28 regulations are not being adequately enforced.

29 Minimum pilot qualifications
30 do not reflect the expertise required to fly in

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1 Northern Canada.

2 Recommendations: To alleviate
3 some of the problems noted above, it was suggested
4 that a Ministry of Transport inspector be permanently
5 located in Yellowknife. The inspector would be in
6 charge of inspecting aircraft, enforcing all existing
7 regulations and recommending fines, sufficient to act
8 as a deterrent to those violating established
9 regulations.

10 In relation to the above, a
11 number of the respondents recommended that an orien-
12 tation program for pilots and crews on navigation
13 and survival in a northern environment be established
14 and implemented as a mandatory operating requirement
15 north of the 60th Parallel.

16 Price and income controls.
17 The Federal Government's decision to impose price and
18 income controls was not discussed with local business
19 people as a survey portion of the study had already
20 been completed. However, establishing such controls
21 does create a number of potential problem areas
22 which should be given some consideration, especially
23 if pipeline developments proceed along the Mackenzie
24 Valley.

25 As noted above, a labor drain
26 is anticipated during pipeline construction periods by
27 many northern labor-intensive businesses. Some have
28 acknowledged that they would be willing to increase
29 salaries during these periods to remain competitive.
30 However, with the implementation of long-term federal

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1 price and wage controls, local firms could be prevented
2 by law from increasing salaries beyond a specified
3 level.

4 Wage control limits will
5 have to be raised in the Northwest Territories in order
6 to provide the northern entrepreneur with an opportunity
7 to remain competitive during pipeline and gas plant
8 construction period. As we noted earlier, it is unlikely
9 that a major increase in hourly based rates will be
10 necessary on the condition that comparable overtime be
11 available in both the pipeline and non-pipeline
12 sectors.

13 Territorial Regulations. Motor
14 vehicle operations authorities. Much consideration has
15 been given recently to greater utilization of rail and
16 truck transportation of pipeline construction materials
17 in the upper Mackenzie, as to reduce the potential strain
18 on the barging system. At the other end of the river
19 use of the Dempster Highway from the Southern Yukon to
20 the delta is also being seriously envisaged.

21 The adoption of trucking as
22 a prime mode of transportation would represent a very
23 substantial entrepreneurial opportunity for northerners.
24 However, we have noted that southern based trucking
25 firms are readily granted authority to operate on the
26 Northwest Territories highways without reciprocal
27 authorities being granted to northern-based companies
28 in other provincial jurisdictions.

29 Our recommendations:

30 1. That the Government of the Northwest Territories

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1 should immediately / negotiate
2 agreements with Alberta and
3 British Columbia to facilitate the granting of authori-
4 ties to N.W.T. based trucking firms for operations of
5 Alberta and British Columbia highways.

6 2. That the regulations of the Highway Transport
7 Board and the mechanism of enforcement be reviewed and
8 modified as necessary in order to effectively translate
9 the intent of the public service vehicles ordinance
10 and thereby restore order to the trucking industry.

11 Labor standards. Pipeline
12 construction and related developments will bring
13 thousands of workers to the Northwest Territories.
14 Pipeline applicants have served notice that they
15 intend to negotiate work contracts with construction
16 companies which would include 12-hour working days,
17 seven days a week. The rationale for this approach
18 is that the overtime payments will act as an incentive
19 for skilled personnel to come north. However, existing
20 northern labor ordinances do not permit such extensive
21 working hours, therefore northern business could be
22 prevented by law from offering overtime as an incentive
23 to local employment for other than pipeline-related
24 construction.

25 Recommendation, that the
26 labor standards ordinance should be revised to make
27 provision for extended working hours for all businesses
28 during the pipeline construction period.

29 Mechanics' Liens. Several
30 businesses in the delta reported very unfortunate account
collection experiences with southern-based contractors

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1 who have operated intermittently in the area. An
2 extension of the 30-day lien period would provide the
3 local firms with greater protection.

4 The recommendation, that
5 the Mechanics' Lien Ordinance would be completely
6 reviewed and updated to provide realistic controls and
7 time constraints to adequately meet the purposes for
8 which it was intended. Example, the extension of the
9 time period to 90 days for registration of a lien.

10 Document registry. A number
11 of firm surveyed, reported that the Government of the
12 Northwest Territories Central Registry was antiquated
13 and unusable. Liens and chattel mortgages in particular
14 were reported to be difficult, if not impossible, to
15 search. This limitation makes it extremely difficult
16 to assess existing chattel mortgages and oftentimes
17 interested parties are forced to make a purchase
18 without a complete reassurance of receiving clear title
19 to the chattel.



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1
2 Recommend that Chattel
3 mortgages for equipment bearing serial numbers should
4 be recorded separately from other household goods by
5 serial number and name of owner, thus permitting a
6 cross-reference search.

7 It is further recommended
8 that a system be implemented to simplify the search
9 procedure and reduce the time required to have a search
10 completed.

11 Worker's Compensation. The
12 assessment rate in certain areas of employment is sub-
13 stantially higher than that in southern provinces because
14 of the extensive amount of flying time. Also all
15 classes of business come under the N.W.T. ordinance
16 which is not the case in the southern provinces. These
17 policies place an additional financial burden on the
18 employers in the Northwest Territories. Recommendation
19 that the rates, classifications and regulations of
20 workers compensation insurance should be adjusted to
21 bring the ordinance into line with southern provincial
22 areas.

23 However, a word of caution
24 is in order as to avoid the occurrence in the N.W.T.
25 of the serious problem which has recently come to
26 light in Alaska. The problem to which we refer is
27 due to excessive, in terms of relative costs of living,
28 disability payments made to non-residents of Alaska,
29 injured in the construction of the Alyeska pipeline
30 but recuperating in their state of origin, where the

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1 cost of living is much lower. We recommend that the
2 N.W.T. Worker's Compensation ordinance not be modified
3 with respect to the method of computing compensation
4 payments subsequent to any amendments to the Labour
5 Standards ordinance, which would provide for extended
6 working hours. Furthermore, the present ceiling of
7 benefits must be retained subject to periodic adjustment
8 to reflect inflationary pressures.

9 It is further recommended
10 that in order to ease the burden on employers, premiums
11 be payable in installments rather than a lump sum at
12 the beginning of the insurable period. Now, this is
13 consistent with provincial arrangements.

14 The Mackenzie Valley pipeline
15 authority. In the immediate future, many regulatory
16 bodies and agencies will probably be recommended as
17 a means of insuring that the interests of northern people
18 are protected.

19 Some of the resident northern
20 business community expressed concern that too many
21 regulatory agencies could be established and suggested
22 that ^asingle agency to monitor all pipeline activity
23 would be more desirable.

24 The recommendation, it is
25 proposed that a Mackenzie Valley pipeline authority
26 be formed to provide a single interface between the
27 pipeline companies, government departments, the pipeline
28 corridor north of the 60th parallel.

29 That the pipeline authority
30 would be organized is a relatively small group, with a

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1
2 staff of 25 to 100 residing mainly in the Mackenzie
3 Valley. The authority would assume both policy and
4 policing functions with full authority to modify
5 procedures or shut down the operations for infractions.

6 It would operate in a manner
7 comparable to the pipeline construction branch of the
8 National Energy Board and would have a direct relation-
9 ship with the Board.

10 The headquarters in the Mackenzie
11 Valley Pipeline Authority would be centrally located
12 along the pipeline corridor at either Fort Simpson or
13 Norman Wells and would be adequately funded with aircraft
14 support to cover the pipeline operations without being
15 resident in the pipeline camps. But, the authority
16 would be responsible only for pipeline and related
17 activities within the Mackenzie corridor and would
18 cease to exist after construction of the pipeline.

19 The Mackenzie Valley Business
20 Association would ensure that resident businessmen
21 are involved to the fullest extent of their capabilities
22 during pipeline construction. This section would
23 enforce the terms and conditions in the pipeline authority
24 to involve resident entrepreneurs.

25 The Mackenzie Valley Business
26 Association would also serve protect the pipeline
27 companies from abuse by resident firms in special
28 situations where there are too few resident businesses
29 for effective bidding on contracts or where inadequate
30 operational performance of resident businesses jeopardized

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1
2 job completion schedules.

3 The terms and conditions in
4 the pipeline authority relating to the involvement of
5 resident business would include the adoption of all
6 relevant recommendations made in the present report.

7 In conclusion, this report
8 has performed two functions. First, it has provided an
9 inventory of businesses, personnel and equipment of
10 northern firms, which could be associated with the pro-
11 posed natural gas pipeline and related developments.

12 Secondly, the report has
13 provided some comment on the potential for expansion
14 of local businesses, related in part to meeting with the
15 increased demands generated by the pipeline development.

16 Concerning the former task,
17 it has been very difficult to provide an assessment
18 of capacity utilization of the personnel and equipment
19 of businesses surveyed, since this varies directly with the
20 general economic activity and seasonal fluctuations.

21 In the environment sensitive
22 delta, for example, capacity utilization in almost
23 a quarter of the businesses, if not more, approaches
24 zero for several weeks of the year. Even under the
25 most favourable economic conditions. At the same time,
26 the trade contractors report little slack whatever the
27 season and state of the economy, although the latter
28 most definitely affects their financial condition, due
29 to a sensitive accounts receivable turnover.

30 Briefly, the capacity utiliza-

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tion ratio is constantly subject to dynamic forces the magnitude of which varies throughout the study region.

As of the time of writing in February '76, we can affirm without hesitation that the northern business could now assume a greater share of pipeline related work than at the same time last year, simply because of the economic contraction which has intensified itself in the interim.

With references to the second task, determining potential to expand has been a rather subjective exercise, although the credit data given in the finance section provides a somewhat objective indication. Moreover, the majority of business people strongly emphasized that their current capacity must not be regarded as an upward limit. On the contrary, most firms stressed they would readily expand if warranted by a tangible increase in the demand for their services. However, many respondents expressed concern that their ability to expand would depend on a greater -- a great deal upon the implimentation of some of the recommendations of the task force on northern business and those included in this report.

In this respect, we have emphasized on several occasions in the course of this report, the northern businesses are likely to be the principal employers of northern residents during both the construction and operation phases. For this reason, we feel that the interests of both northern employers and employees are inseparable and that their inter-depend-

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1
2 ence should be reflected in the terms and conditions
3 of pipeline construction and operating authority. We
4 have attempted to convey the attitudes, problems, and
5 suggestions of the local businessman. The majority
6 of the comments are not restricted to the construction
7 boom; they are of equal importance at the present time.

8 Northern businesses do not
9 request preferential treatment, in fact they do not want
10 it. They are asking only that the resources be provided
11 to all businesses so that an effective management and
12 active expansion can be accomplished, thus enabling max-
13 imum participation of established northerners in northern
14 development.

15 Many difficulties will arise
16 during the construction period which have not been
17 analyzed in this study. Foresight and initiative
18 of the entrepreneur will be exercised to the fullest
19 extent to provide timely solutions.

20 In conclusion, we would like
21 to recall the Federal Government Pronouncements on
22 northern developments which have provided both inspira-
23 tion and direction in subsequent discussion of the pro-
24 posed hydrocarbon industry projects. In particular,
25 the March 28th, '72 statement on northern development
26 in the '70's calls for a higher standard of living,
27 quality of life and equality of opportunity for northern
28 residents and for viable economic development within
29 the regions of the Northwest Territories.

30 Similarly, but in more

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1
2 precise terms, the 1972 Federal Guidelines for northern
3 pipelines state that contracts and subcontracts shall
4 be so designed and publicized as to invite and encourage
5 bids from native organizations, settlement councils
6 and contractors and the applicants shall make a conscious
7 effort to contribute to the social and economic
8 development of the Territories.

9 We trust that this report of
10 northern businessmen will enable the Honourable Justice
11 Berger to formulate the necessary guidelines and
12 recommendations to maximize the contribution of the
13 resident northern business community and workforce.

14 MR. SEARLE: Thank you, Mr.
15 Henchey. Mr. Commissioner, I would assume that you
16 would want to break for lunch now and begin cross-
17 examination afterwards.

18 THE COMMISSIONER: Well, we'll
19 adjourn until 2:00 then, and presumably the evidence
20 of this panel can be completed this afternoon. So,
21 thank you very much gentlemen.

22 (PROCEEDINGS ADJOURNED UNTIL 2:00)
23
24
25
26
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28
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30

Hinchey, Ashton, MacLeod
Cross-Exam by Carter

1 (PROCEEDINGS RESUMED PURSUANT TO ADJOURNMENT)

2 THE COMMISSIONER: Well we'll
3 begin again then ladies and gentlemen.

4 MR. SCOTT: Mr. Carter, do
5 you have any questions of this panel.

6 MR. CARTER: I have a few.
7 I guess I should go the microphone.

8 CROSS-EXAMINATION BY MR. CARTER:

9 Q Mr. MacLeod, if I could
10 start with you and refer you to the addendum to your
11 evidence. On the first page, at the bottom of the
12 second paragraph, you state that you've advocated a
13 relatively restrictive definition of northern business.

14 I don't believe sir that you
15 have outlined this definition of northern businesses in
16 your evidence although I believe it's referred to in
17 your report. I wonder if you might tell us what your
18 definition of northern business is.

19 WITNESS MacLEOD: Yes, that's
20 right. The definition is given in our report. It's
21 essentially the same definition as the one adopted by
22 the Task Force on Northern Business with respect to
23 obtaining government contracts. So I will read that
24 definition to you.

25 Q All right.

26 A "A northern business is
27 a firm of which at least half of the permanent
28 personnel and capital investment are located in the
29 north. A business which is considered a resident of
30 the Territories for purposes of taxation notwithstanding

Hinchey, Ashton, MacLeod
Cross-Exam by Carter

multiple residency and a business in which the management decisions are generally made in the north. But this criteria normally can be satisfied by the presence of northern resident principles with due consideration given to the maintenance of dual residency by such principles."

Q Thank you. Then you go on to state in that paragraph that there is a minority of northern entrepreneurs who feel entitled to unlimited business in spite of past operational performance. I take it that from that you mean that not all businesses are well run?

A That's right.

Q Would you include some criteria when giving consideration to northern businesses that they have to meet certain standards for management skills and that sort of thing?

A Well I think their past operational performance should be taken into consideration. That is, the experience that has been had with them with respect to meeting contract deadlines for example.

Q I see.

A -- and cost over-runs.

Q Are you able to identify any types of businesses or perhaps areas in the north where you can say that businesses have better performance records than other areas or certain businesses have better records than other businesses?

A Those areas in which there is a lively competition among several businesses in the

Hinchey, Ashton, MacLeod
Cross-Exam by Carter

1 same category generally produce a better level of service.
2 When you go into a very small community where there is
3 only one general contractor, he is never subject to any
4 competition and whatever his operational performance,
5 he doesn't risk losing the job.

6 Q I suppose that the
7 management skills that you talk about in your main
8 paper would be part and parcel of that?

9 A Yes. In the course of
10 this survey, we wanted to collect some data pertaining
11 to the financial aspects of these businesses: their
12 liquidity, their financial capability and so on. To do
13 this, we looked at financial statements, balance sheets
14 and income statements. Some of these interviewees
15 treated these financial statements as if they were, you
16 know, public information, newspapers or circulars. I
17 don't think that they were really aware of the content
18 of these documents. I had the impression that quite
19 often they had these financial statements prepared just
20 as a formality because the Income Tax Department wants
21 them once a year.

22 Q I see.

23 A They were not used as a
24 tool in managing the business. Of course, at the same
25 time, I ran into other businesses who knew very well
26 which questions I wanted to answer from these statements
27 and they would stand right over my back and make sure
28 I didn't take anything else. So I don't want to
29 generalize on it.

30 Q Right. You talk about a

Hinchey, Ashton, MacLeod
Cross-Exam by Carter

1 management training program. Can you be any more specific
2 about what sort of a program that should be?

3 A I can give you an idea
4 of what the content should be.

5 Q Yes.

6 A I am not quite sure who
7 should run the course. I think it should be government's
8 responsibility but that is only a suggestion.

9 Q I think the content would
10 be helpful.

11 A Yes. I think the local
12 businessman would like to be more familiar with the use
13 of those financial statements that I referred to. They
14 would also like to acquire skills in the presentation
15 of loan requests to financial institutions. Some of
16 these businesses are very inarticulate when it comes to
17 approaching a bank. They might have a very viable project
18 but they can't seem to put it across adequately with
19 financial institutions.

20 WITNESS ASHTON: Mr. Carter,
21 may I interject?

22 Q Certainly.

23 A The FBDB presently have
24 a managerial program which basically is financial
25 statement analysis and preparation of forecasts, budgeting,
26 loan applications and that type of thing. It has been
27 fairly well used I know in Fort Smith and Hay River. I
28 don't know whether it is into the other communities or
29 not.

30 WITNESS MacLEOD: I think the

Ashton, Hinchey, MacLeod
Cross-Exam by Carter

1 THE COMMISSIONER: Mr. MacLeod,
2 you say that to define what is a northern business, you
3 take the three criteria laid down by the Minister's
4 Task Force on Northern Business. 50% of its capital
5 assets in the north; the management is essentially in
6 the north, and I've forgotten what the other one was.
7 But you're taking this whole question of past operational
8 performance and adding that as a fourth criteria,
9 really.

10 A No, it's not a fourth
11 criteria. I'm just saying that --

12 Q You're adding that, in
13 other words I want to make sure I understand you;
14 you're saying that someone who is in business here and
15 has been in business for the requisite length of time
16 has 50% of his assets in the Territories, and makes his
17 decisions here, you're really talking about someone
18 who is a resident-manager, so to speak.

19 A Yes.

20 Q That notwithstanding,
21 that, before he can qualify for any preferential
22 treatment so far as obtaining contracts and sub-
23 contracts where pipeline construction are concerned,
24 somebody is going to review his past performance
25 and see whether he has met deadlines in the past,
26 whether he has incurred cost overruns. That means
27 that you're putting a certain amount of discretionary
28 power into somebody's hands and I wasn't entirely
29 sure who you thought -- and if the Chamber hasn't
30 decided, give me your own personal view at any rate --

Ashton, Hinchey, MacLeod
Cross-Exam by Carter

1 A O.K.

2 Q -- who should be
3 responsible for conducting that review and separating
4 the good guys from the other guys.

5 A Well, this review
6 process or the sorting out process would be conducted
7 by the market forces because to qualify for a northern
8 business which would receive special status, or
9 privileges or preferences, whatever you want to call
10 it, they would only have to meet those three criteria
11 with respect to personnel, location of assets --

12 Q Yes.

13 A -- and the decision-
14 making centre. That other restriction, the aspect
15 dealing with the past operational performance would
16 only be a limit, would serve as a limit to the prefer-
17 ential treatment. I mean just by meeting the first
18 three conditions you're entitled to preferential
19 treatment; but I want to put some kind of a limit
20 on this preferential treatment.

21 Q I don't know what's
22 wrong with me today, but I don't quite get that.
23 You see, I would have thought that your supposition
24 is sound. If the guy is still here and in business,
25 after so many years, presumably he's done a reasonably
26 decent job for the customers he's had, for him to
27 still be in business.

28 A Well, that's not quite
29 the case. In a place like Inuvik where you have maybe
30 a dozen general contractors competing against one

Ashton, Hinchey, MacLeod
Cross-Exam by Carter

1 another, they are subject to competition. The weak
2 ones fall aside and go out of business, and the stronger
3 continue. But if you go into a small settlement where
4 there is only one general contractor, he's the only one
5 to bid on local contracts, no matter how poor a job
6 he does, he can still retain that contract.

7 Q All right, well I follow
8 that. Now, what then do you do about limiting the
9 extent to which he receives preferential treatment?

10 A Well, one of the main
11 themes --

12 Q You're still weeding
13 some people out, and who's going to weed them out?

14 A I would say it would
15 be done through the tendering and the contracting
16 process. This preferential treatment, the object
17 of the preferential treatment is to make it such that
18 the local business would not be at a disadvantage with
19 respect to southern business when bidding on northern
20 contracts.

21 Q All right, all right,
22 I'm well aware of that.

23 A O.K.

24 Q And I follow you
25 entirely on that. I'm not saying I agree entirely,
26 but I certainly follow you entirely.

27 A O.K., so a business
28 which has poor past operational experience is going
29 to be subject to some kind of competitive factors,
30 and will be weeded out in that way.

Ashton, Hinchey, MacLeod
Cross-Exam by Carter

1 Q O.K., so then you're
2 not suggesting that there should be any discretionary
3 power in the companies, in any government agency, or
4 in the Chamber of Commerce itself to weed those
5 people out. You say the ordinary market forces will
6 weed them out when they get into this league.

7 A That's right, yes, be -
8 cause any northern business that meets those three
9 criteria would still be on the northern bidders' list.

10 Q Yes.

11 A So they can bid on any
12 northern job.

13 Q That's what I would have
14 thought.

15 A Yes. But his past
16 operational performance has been poor, he's unlikely
17 to be very successful even though he is on that list,
18 so by --

19 Q If he puts in the lowest
20 bid, then he's going to be successful --

21 A -- in obtaining the
22 contract, yes.

23 Q -- in obtaining the
24 contract.

25 A But in our discussion of
26 bonding this morning, we said that if he cannot pull
27 off the job according to schedule, it could be taken
28 away from him.

29

30

Hinchey, Ashton, MacLeod
Cross-Exam by Carter

1 Q Well then, Captain
2 Tetrault made a submission at Hay River about a year
3 ago, very much along the lines of Mr. Hinchey's in
4 discussing bonding and I am certain you've all talked
5 to him about these problems. His argument was that
6 the bonding companies wound up deciding which northern
7 businesses were going to get contracts. Now, if you
8 establish a Territorial insurance corporation
9 responsible for bonding, they will have an awful lot
10 to say then, about whether businessmen, such as the one,
11 the hypothetical one we've been discussing, whether his
12 putting in a bid at that low figure is going to mean
13 anything at all.

14 So, so far I've got it, have
15 I?

16 A Yes, I think so.

17 Q Okay.

18 A But except --

19 WITNESS HINCHEY: I would
20 say the decision is going to be made by the bonding
21 agency.

22 THE COMMISSIONER: You would
23 say?

24 A The decision will be made
25 by the bonding agency, as you say. Preferably it will
26 be an organization within the Territories.

27 Q Yes, and you've made
28 the recommendation.

29 A And have a broader
30 understanding of the situation as it exists.

Hinchey, Ashton, MacLeod
Cross-Exam by Carter.

1
2 WITNESS MacLEOD: Except on
3 pipeline contracts, we could expect to dispense with
4 bonding.

5 Q Yes. Maybe you would
6 repeat that again, I --

7 A With respect to pipeline
8 contracts, we would expect to dispense with bonding.

9 Q And instead have
10 continuing supervision in the contractor with the power
11 to suspend the contract and so on. I followed you this
12 morning on that.

13 A Yes.

14 Q Just one last question.
15 I think the government of Saskatchewan has a bonding
16 agency, doesn't it?

17 A Yes.

18 WITNESS HINCHEY: Yes, that's
19 correct.

20 Q Did you find out at all
21 how that works? Has it worked well?

22 A No, we -- we're aware
23 of it and we have some information but it is very
24 limited and it is an area which we are going to look
25 into.

26 WITNESS MacLEOD: One
27 large contractor in the delta has gone through that
28 Saskatchewan government bonding agency successfully.

29 Q From -- I --

30 A A business resident in

Hinchey, Ashton, MacLeod
Cross-Exam by Carter

1
2 the delta --

3 Q Yes.

4 A -- went through the
5 Saskatchewan government bonding agency to obtain
6 bonding to perform a project.

7 Q Oh, Saskatchewan bonds
8 people who aren't in Saskatchewan?

9 A They did in this case.

10 Q Is that so?

11 WITNESS HINCHEY: We've also
12 been told by another client that if he opened up an
13 office for his operation in Saskatchewan that they would
14 provide him bonding within the Territories.

15 Q I see. That's very
16 interesting.

17 Okay, sorry to interrupt you
18 Mr. Carter. I just wanted to --

19 MR. CARTER: Fine.

20 Mr. MacLeod, another area
21 that you dealt with was unionization and on page 11,
22 toward the bottom on the page, you suggest that an
23 alternative would be to designate the prime contracts
24 as union and request that successful pipeline applicant
25 and producer companies retain some of the subcontracts
26 which they would tender themselves to non-union, northern
27 firms and I'm wondering sir, that if you think that that
28 would work in view of the power, as you've described it,
29 of the unions, would the applicants themselves be able
30 to do this without some sort of government regulation?

Hinchey, Ashton, MacLeod
Cross-Exam by Carter

1
2 WITNESS MacLEOD: I think
3 I qualify that statement by saying that I think it would
4 work as long as the jobs are -- you know, the non-union
5 jobs are physically removed from the union jobs and
6 also that the scheduling be different. So, this could,
7 I think, work in the case of access roads which could
8 be built well in advance of the arrival of pipelaying
9 crews.

10 Q You might still have a
11 problem with the unions though, you appreciate and it
12 would be helpful to reach your goal to have some sort
13 of government regulation to assist there, would it not?

14 A If a government regulation
15 is necessary in this area, I think I would support it.
16 But another point, which I didn't bring out in this
17 morning's evidence was that unionization on this pipeline
18 project would be the object of one special agreement,
19 lasting only for the duration of that project. So it
20 would be a special agreement, it would not be the agree-
21 ment which is effect already in southern Canada.

22 So, this could be one of the
23 provisions of that special project agreement.

24 Q Right. Mr. Hinchey, in
25 your evidence, on -- I believe it is the second page,
26 again, the last paragraph on that page, you have given
27 the example of something that municipalities have done
28 and that is that when tendering contracts, they've
29 purchased materials for use by the contractor and I
30 don't believe though, that you've gone on to recommend

Hinchey, Ashton, MacLeod²⁷²⁹⁰
Cross-Exam by Carter

1
2 that this be done in the case of the pipeline project,
3 so that the pipeline company, for example, would purchase
4 equipment and the contractor would provide a service
5 contract then. I'm wondering if you would support
6 such a recommendation?

7 WITNESS HINCHEY: Yes, I
8 think the approach would be feasible in the application
9 -- in certain areas of the pipeline, yes.

10 Q Now, on page four of
11 your evidence, you have recommendations in the middle
12 of the page there and I had some trouble with the
13 second recommendation there, the second paragraph in
14 your recommendations on that page and I'm wondering
15 if you could maybe attempt to explain it to me again?
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Ashton, Hinchey, MacLeod
Cross-Exam by Carter

1 A What, due to the
2 difficulty in determining the adequate permissible
3 differential?

4 Q Yes.

5 A We offer alternatives
6 of using all northern bid lists in case of the
7 number of local firms and their capacity is sufficient
8 in relation to the amount of work to be performed under
9 the specific contracts where this approach might be
10 adopted.

11 THE COMMISSIONER: You mean
12 just limiting the bidding to northerners, period. Then
13 you don't have the problem of preferential --

14 A That is correct.

15 THE COMMISSIONER: Yes.

16 MR. CARTER: Q Finally on
17 your evidence on page 7 you have your recommendation
18 for the Mackenzie District Business Association, and
19 you see it as being funded by government and the
20 pipeline company and you have some fees that you'd
21 charge, or the Association would charge. I'm wondering
22 what role you see the government of the pipeline companies
23 playing in that Association, apart from providing
24 funds?

25 A Well, they would certainly
26 have input and be members of the Association, and
27 would assume to be involved in the makeup of the Board
28 of the Association. The funding initially, to get
29 something of this nature on their way, would be
30 substantial. Obviously there would have to be more

Ashton, Hinchey, MacLeod
Cross-Exam by Carter

1 sources than just the business community because there
2 would have to be a compilation of a substantial amount
3 of statistical information available through this
4 organization and that would take a lot of man hours to
5 put it together and the method of retrieval of the
6 information in relation to bids and the bid depository
7 and information enquiries by organizations doing work
8 within the Northwest Territories.

9 Also the cost of putting
10 together training or management seminars, financial
11 management seminars, would also require, you know,
12 initially a number of dollars to get them funded and
13 under way. Eventually at the completion of the
14 pipeline operation, it would be hoped that this would
15 be a self-sustaining operation between business and
16 government.

17 But we see this particular
18 entity as an ongoing thing, and not something that
19 would terminate at the end of the pipeline operation.

20 MR. CARTER: All right.
21 Thank you, that's all the questions I have of this
22 panel.

23 MR. SCOTT: Mr. McLaughlin,
24 do you have any questions?

25 MR McLAUGHLIN: No questions.

26 MR. SCOTT: Mr. Sigler?

27 MR. SIGLER: No questions,
28 sir.

29 MR. SCOTT: Mrs. MacQuarrie,
30 do you have any questions? I'll defer Mrs. MacQuarrie.

Ashton, Hinchey, MacLeod
Cross-Exam by Bayly

1 She was here this morning but stepped out.

2 Mr. Bayly?

3
4 CROSS-EXAMINATION BY MR. BAYLY:

5 Q Mr. MacLeod, if I could
6 begin with you, please. On the first page of your
7 evidence in reference to the survey, can you tell me
8 whether your inventory extended to all segments of the
9 business community in the region that you studied?

10 WITNESS MACLEOD: Virtually all
11 segments included business which would not likely be
12 affected by development, such as dress shops, flower
13 shops, that type of thing.

14 Q All right.

15 A Those were the only
16 exclusions.

17 Q You thought they wouldn't
18 be affected because there weren't supplying things
19 directly or servicing directly the industry?

20 A Well, I included, for
21 example, grocery stores which would supply directly and
22 indirectly pipeline activity, but I think that the
23 relationship between the pipeline industry and the
24 dress shops is too far, too remote to be included.

25 Q All right then, was that
26 your reasoning for not including some of the land-
27 based businesses such as commercial fishing, hunting
28 and trapping?

29 A I can say one thing.
30 When I went to the settlements, I generally widened my

When I went to the settlements, I generally widened my

A I can say one thing.

and trapping?

based businesses such as commercial fishing, hunting
your reasoning for not including some of the land-

Q All right then, was that

dress shops is too far, too remote to be included.

relationship between the pipeline industry and the

indirectly pipeline activity, but I think that the

example, grocery stores which would supply directly and

A Well, I included, for

directly or servicing directly the industry?

be affected because there weren't supplying things

Q You thought they wouldn't

exclusions.

A Those were the only

Q All right.

shops, that type of thing.

affected by development, such as dress shops, flower

segments included business which would not likely be

WITNESS MACLEOD: Virtually all

business community in the region that you studied?

whether you inventory extended to all segments of the

evidence in reference to the survey, can you tell me

begin with you, please. On the first page of your

Q Mr. Macleod, if I could

CROSS-EXAMINATION BY MR. BAYLY:

Ashton, Hinchey, MacLeod
Cross-Exam by Bayly

1 definition of "local business" to take into considera-
2 tion virtually anyone who has undertaken any kind of
3 entrepreneurial activity in the last two years. So
4 that included interviewing people who had cut poles for
5 one week in the last two years.

6 Q Did it include people who
7 were trapping for a living?

8 A No, it didn't.

9 Q And is that because you
10 excluded them from the definition of "entrepreneur",
11 or was there some other reason?

12 A It's because I didn't
13 think they would be in a position to take advantage of
14 pipeline-related contracts.

15 Q All right.

16 A They went beyond the
17 terms of reference of our inventory.

18 Q O.K., and was that what
19 you based your definitions by your inventory on,
20 whether the businesses would be able to take advantage
21 of pipeline-related activity?

22 A Well, they had to be
23 engaged in some kind of activity which would allow them
24 to take advantage of the pipeline contracts. I don't
25 think a pipeline is going to go out and buy much fur.

26 Q And did you, in your
27 recommendations, you consider some of the impacts on
28 businesses, quite apart from whether they're going to
29 benefit or not? You cite, for example, the problems
30 of higher wages that would be paid by pipeline companies

Ashton, Hinchey, MacLeod
Cross-Exam by Bayly

1 and contractors as well as fringe benefits that can
2 be offered by other sectors of the economy. Would you
3 agree with me that those maybe things that will affect
4 the person operating the dress shop, and perhaps even
5 the person who is trapping?

6 A Those factors would
7 certainly affect someone operating a dress shop. It
8 would have less impact on someone who is involved in
9 trapping.

10 THE COMMISSIONER: You really
11 don't think he's going to sell furs to pipeline
12 people any more than --

13 A No, because in the
14 construction phase, the applicants are talking about
15 keeping transients outside of the communities.

16 THE COMMISSIONER:
Yes, I know.

17 MR. BAYLY: Q And you wouldn't
18 see his difficulty in recruiting people for trapping
19 changing when pipeline-related activities are
20 affecting other sectors of the economy in terms of
21 competing for their employees?

22 A Are you thinking speci-
23 fically of the trapping activity, or the craft shop
24 activity, the manufacturing activity?

25 Q I'd addressed the
26 question to the former, but the craft shop maybe
27 another valid example.

28 A I think it's probably
29 a better example.

30 Q All right.

Ashton, Hinchey, MacLeod
Cross-Exam by Bayly

1 A . Because it is an enterprise
2 which does require staff; but I don't get the impression
3 that the average trapper works as a business with
4 regular employees who punch time cards.
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Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

1 Q Well, as I understand it
2 it's not that kind of a business.

3 A No.

4 Q Let's use the other
5 example because you are more familiar with it. Do you
6 see that area of the economy in some of the communities
7 suffering from this kind of competition?

8 A Yes, I do.

9 Q Did you interview for
10 your survey people running and working in craft shops?

11 A Well as a matter of fact
12 I did interview a number of businesses which did go
13 beyond the terms of reference of our study. I went
14 in to see the co-op in McPherson, Aklavik, Tuk, the
15 Dene co-op in Simpson. They are having serious personnel
16 problems right now.

17 Q Now, I take it that your
18 conclusion that perhaps employers will be able to pay
19 higher wages or wages for longer hours to smaller numbers
20 of employees may not apply to an industry like the craft
21 industry?

22 A That's right.

23 Q That may be being done
24 by people who don't have any more time to give to the
25 activity as it is because of other obligations.

26 A That right. But I think
27 some of those people who would leave would be replaced
28 by new entrants into the labor force.

29 Q Now, on page five and six
30 of your evidence, you refer to the inequities in the

Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

1 subsidization of employees in the Northwest Territories
2 between those in government and those in private enter-
3 prise.

4 A Yes.

5 Q Now do you see as one
6 of the problems that the pipeline companies will also
7 offer benefits to their employees and the major contractors
8 to their employees that northern businessmen and smaller
9 businesses will not be able to offer to theirs?

10 A Yes, I recognize that
11 probability.

12 Q All right and those might
13 include housing and travel and pension.

14 A Yes. But one of the
15 problems there is the inconsistency of the tax treatment
16 of these benefits. Quite often local business is in a
17 position to provide subsidies equal to that of government.
18 But since the subsidies provided by the local business
19 are taxed, they have to be augmented further to meet the
20 after tax subsidy given by the government sector.

21 Q Yes and I recognize that's
22 what you mean by the inequities.

23 A Yes.

24 Q That it's cheaper for
25 the government to offer these carrots than it is for
26 private enterprise.

27 A Yes, that's right.

28 Q But that it's a cost
29 that could be borne by a bigger business perhaps more
30 easily than by a smaller business which is already

Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

1 resident here. You'd agree with that?

2 A Yes.

3 Q Do you feel that the
4 situation might be made worse if the applicant and his
5 contractors were to offer these similar benefits to their
6 employees?

7 A A lot of these contractors
8 will be local.

9 Q Will be --

10 A Will be local.

11 Q All right. But let's
12 take the major ones. The ones that are actually -- the
13 applicants themselves. We have heard evidence and you
14 have no doubt read in the application that the applicants
15 will be placing certain of their personnel in the larger
16 centers and will be housing them and having them work
17 there. Would you expect that people might be attracted
18 to leave other jobs to apply for those because of these
19 fringe benefits among other things?

20 A Yes.

21 Q Have you made any
22 recommendations or have you thought of any recommendations
23 about how this problem could be solved?

24 A Well I think if we had
25 some uniformity in subsidization the small local business
26 could compete much better than he can right now.

27 Q Would you go so far as
28 to recommend that the applicants not provide fringe
29 benefits that cannot be afforded by local businesses?

30 A No I would not say that.

Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

1 Q How would you propose
2 that it be possible for smaller local businesses to be
3 able to compete in the fringe benefits side?

4 A Well if we could eliminate
5 the inequitable tax treatment, we would improve the
6 ability of the small local business to compete on that
7 level and also --

8 Q So you'd like to see
9 changes in the Income Tax Act to permit smaller businesses
10 to offer these same subsidies in pre-tax dollars?

11 A Yes and furthermore, we've
12 made other recommendations proposing a non-taxable
13 homeowner grant. This well might come out of the
14 pockets of the small businessman.

15 Q Yes. So then they could
16 provide the same housing advantages that the larger
17 companies could.

18 A Yes.

19 Q And governments who are
20 doing this now already?

21 A Yes.

22 Q I take it you are not
23 just referring to governments of the Territories and
24 the Federal Government, you are also referring to even
25 City Governments or Town Governments that can offer these.

26 A Yes.

27 Q On page nine, you make
28 some recommendations with regard to vocational training.
29 I am referring here to the recommendation number one.
30 You say there that program priorities should be revised.

Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

1 I am interested to know in what you mean by "revised".
2 Are you advocating that certain courses should be
3 either eliminated or that they should be reduced in size
4 because others should get priority?

5 A No. I would say that the
6 increase in capacity should be reflected in the trades
7 which will be in greater demand in the future without
8 cutting back on the capacity allocated to existing programs
9 in other areas.

10 Q So it would involve more
11 funding as opposed reallocation of funds so that these
12 trades could receive more personnel, classroom time and
13 whatever else is needed?

14 A Yes because I believe
15 right now there is a shortage in virtually every field
16 covered at A.V.T.C.

17 Q Now, would you, when you
18 say that you would recommend increasing the capacity
19 of existing training facilities would you also advocate
20 new facilities being set up --

21 A Yes.

22 Q -- in the Northwest
23 Territories?

24 A Yes.

25 Q We've heard recommendations
26 at the community hearing notably in Inuvik that training
27 facilities should be located in the northern part of the
28 Mackenzie region.

29 A Yes.

30 Q Would you go along with

Hinchey Ashton, MacLeod
Cross-Exam by Bayly

1 recommendation?

2 A Yes, I have recommended
3 that the training center be established in Inuvik.

Q Yes. Do you see that training center as being one that would concentrate on the skills that you've referred to in the first recommendation or would you see that as being a general training center that people in the delta could take advantage of whatever trade they were interested in pursuing?

A Well it would be a general
1 training center which would be of a permanent nature.

Q On page 13, you make
some further recommendation in the area of transportation.
Now on the one hand you recommend that the Dempster
highway not be completed until after the
pipeline has been constructed.

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Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

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A Yes.

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Q And that's in order to

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discourage transients who had come up by road from
coming into the delta?

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A Yes.

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Q And you would advocate

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though that this road be open to, I take it, only

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commercial traffic in the wintertime to supply the
pipeline?

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A Yes.

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Q So that nobody could

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be on the pipeline -- on the road without some sort
of a permit to be there?

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15

A That's right.

16

Q Yes, and have you

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consulted either applicant in this regard to see whether
this fits in with any of their logistics plans? Whether
they could, in fact, transport the stuff, the material
that they need only during the winter, along this route?

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A I have discussed this

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recommendation with the both applicants and there hasn't
been any objection to it.

23

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THE COMMISSIONER: Who hasn't?

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A There hasn't been any

26

objection to it on the part of the applicants.

27

Q Oh, I see, by either one,

28

eh?

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A Either one. Presumably

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they would use barging in the summer and the road in

Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

1 the winter.

2 Q Right.

3 MR. BAYLY : Now, your other
4 recommendation, the one that is number little ii on
5 page 13, that an all weather road be built without undue
6 delay between Inuvik and Tuktoyaktuk. Can you tell me
7 what the rationale behind that recommendation is?

8 A There is considerable
9 private traffic on the ice road between Tuk and Inuvik
10 in the winter and if an all weather road existed in the
11 summer, I'm sure there'd be the same kind of traffic
12 and that level of traffic is an indication of interest
13 by the local populations in such a road.

14 Q Right. Now, have you
15 looked at the costing of that road in terms of the
16 granular requirements?

17 A No, I haven't.

18 Q I understand that in
19 the Inuvik and Tuk region one of the problems and one
20 of the areas of competition, if you like, is for gravel
21 and other granular materials. You're aware of this?

22 A Yes, I am aware of that.

23 Q And I take it --

24 A But it is readily obtain-
25 able in the summer -- excuse me, in the winter. They
26 stockpile for the summer.

27 Q Yes, right. This is
28 one of the competing -- you are one of the interested
29 competitors for this in opposition, if you like, to the
30 pipeline applicants, who also see a need for this granular

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Cross-Examby Bayly

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2 material, and recognize the scarcity of it in this
3 area.

4 A Yes.

5 Q Would you recommend that
6 the interests of the communities be given priority
7 over those of the pipeline applicant with regard to
8 granular materials in this area for this road?

9 A Yes. I recognize also
10 that the opinion of the local populations, with respect
11 to that road is not unanimous.

12 Q Yes, and I didn't want
13 to get into that.

14 A I thought you'd want to
15 get into that.

16 Q No, I think that's already
17 before the commission.

18 A M-hm.

19 Q Now --

20 THE COMMISSIONER: Nothing's
21 unanimous.

22 MR. BAYLY: Could we turn
23 to you now, please Mr. Ashton, I have two or three
24 questions for you.

25 You have referred to banking
26 facilities in your first page, under item number one,
27 under subheading "B". You say that most communities
28 in the north, even small ones are served by a bank.
29 My information and understanding and observation is
30 that most communities in the north are not served by

Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

1
2 a bank, in the sense that most communities don't have
3 a bank within their hamlet, settlement or town boundaries.

4 WITNESS ASHTON: Yes, that's true.
5 I believe the banks in the areas attempt to serve the
6 smaller communities, businesswise.

7 Q Are they doing that by
8 travelling or does that involve the applicant for
9 bank services having to come into the center?

10 A Most times the latter,
11 but I believe there is a flying in bank in operation.
12 Now, whether it hits any of the delta communities, I'm
13 not sure.

14 WITNESS MacLEOD: Yes, there
15 is a flying bank in the delta.

16 Q Yes. But generally
17 speaking, the solution is that the person who wants
18 the bank services or the company must attend on the
19 bank at its office?

20 WITNESS ASHTON: That's correct.

21 Q Now, do bankers who
22 come into the north, to your knowledge, receive any
23 special instruction with regard to particular financing
24 problems and business problems that may be different
25 from those they've encountered in the south?

26 A Not to my knowledge. I
27 know one of the banks send their managers on a managerial
28 course shortly after they arrive in the north, it seems,
29 but I think that's standard procedure on a first
30 management position, regardless of the branch. So, to

Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

1
2 my knowledge, they receive no specific instruction.
3 Examples are quite frequently the managers coming to
4 Hay River, at least, it's their first managerial experience
5 in a bank as manager and they really don't get that much
6 preliminary instruction prior to this position.

7 Q Would you --

8 A During that first term,
9 I believe they do get some.

10 Q Yes. Would you recommend
11 that this be something banks consider because of some
12 of the special problems that are faced with financing
13 and running operations?

14 A Yes, although, what I
15 would prefer I think, would be to see a manager in
16 the branches in the north, with substantial commercial
17 experience behind him already.

18 Q Yes, I'm not suggesting
19 that we take a bunch of people who've never been
20 managers before and train them. In fact, it may be
21 more difficult to be a bank manager in smaller northern
22 communities than it is in some other areas, would you
23 agree with that?

24 A I definitely believe
25 that's true.

26 Q Yes, and it's not only
27 because of different business conditions but there are
28 people with different levels of sophistication and their
29 ability to use banking services.

30 A That's right. The manager

Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

has to be much more flexible, I think, than he would have to be in a southern branch.

Q And banking, in the very small communities, I would suggest to you and invite you to agree, may involve educating the consumer into what services are available.

A That's also true, yes.

Q Yes, and I have heard that people in the business community in particular, are concerned with what you observed, that the bank managers rotate so frequently, that a bank manager has to be here for a certain length of time just in order to get to know the community and who's a good risk and who isn't and by that time it's time for him to move on.

A Yes, that seems to be the most common complaint of businessmen.

Ashton, Hinchey, MacLeod
Cross-Exam by Bayly

1 Q Would you recommend
2 that with a project like this on the horizon that
3 banks look for recruits who are willing to stay for
4 a longer period of time and resist the temptation to
5 move them?

6 A Yes, although I know
7 it's difficult from the other point of view too,
8 because the managers ^{that} do come up here and don't in
9 all instances want to stay. They like the community
10 quite frequently, but it's their career and they require
11 promotion ^{and} advancement in that career, and by staying in
12 a smaller branch you're not going to be able to receive that
13 kind of promotion. It's my opinion of it.

14 Q Do you feel --

15 A I would, however, like to
16 see a little bit longer stay, rather than anywhere from
17 eight months to two or three years. I think three to
18 five years would be a much preferable number.

19 Q Yes, I was just going to
20 ask if you could put a figure to it, and you think three
21 to five years would be a suitable length of time to aim
22 for?

23 A Three at a minimum, yes.

24 Q Yes, and as you say, some
25 banks are doing that, in some of the larger communities
26 in particular; but in your experience, some are just
27 a matter of months.

28 A As I mentioned, in Hay
29 River, I've been there five years and the two banks
30 there had four managers each during that five years.

Ashton, Hinchey, MacLeod
Cross-Exam by Bayly

1 Mr. Hinchey in Yellowknife, does it change as
2 frequently?

3 WITNESS HINCHEY: No, it
4 doesn't change frequently; but one of the problems
5 with the rapid turnover is that there's always a
6 reluctance on the bank manager's part, when he knows
7 he's going in three or four months, to enter into new
8 loan policies, substantial increases in giving commer-
9 cial loans, because he's not going to be there to
10 monitor them after, and he'd rather the incoming
11 manager make that decision.

12 Q All right, and I take it
13 there's a reluctance in incoming managers to make
14 hasty decisions about who to lend to. How long does
15 that usually last, Mr. Hinchey, in your experience?

16 WITNESS ASHTON:

17 A Six months.

18 Q Six months; so we may
19 have a period of a year over a change of managers when
20 the banks are reluctant to lend money or to change
21 commercial lending arrangements.

22 WITNESS HINCHEY:

23 A It depends on the
24 experience of the manager. If you're getting in
25 managers, their first appointment as such, then
26 certainly the time is going to be longer. In the
27 larger centres of Yellowknife you're generally getting
28 managers in who have been in the position of management
29 and the time frame is much shorter.

30 WITNESS ASHTON: There is still
an over-cautionsness, I think.

Q I understand, too, that

Ashton, Hinchey, MacLeod
Cross-Exam by Bayly

1 bank managers in the Mackenzie region have a limited
2 discretion. They can only O.K. certain transactions and
3 must seek advice from their more senior offices in the
4 south for transactions over a certain size. Is that
5 your experience?

6 A Yes. In the smaller
7 branches the discretionary limit of the manager is
8 \$3,000. Anything over \$3,000 must go to the Regional
9 Office for approval.

10 Q All right.

11 THE COMMISSSTONER: Where is
12 that, in Edmonton?

13 A It's Edmonton for some
14 banks. The Royal Bank just changed their northern
15 office to Edmonton, and I believe the others are still
16 Calgary.

17 WITNESS HINCHEY: Calgary.

18 MR. BAYLY: O Calgary, and
19 in your experience does this cause delays in financing
20 that make things even more difficult for people who
21 would be otherwise bidding on commercial contracts, etc?

22 A It does, especially in
23 the area where the individual applying for the loan
24 has not got the expertise available or the experience
25 to know how to do his homework and make a proper formal
26 presentation to the bank that will be accepted by the
27 Regional Office, and a lot of the delays evolve because of
28 flow back and forth of questions and answers to try
29 and come to a final decision. This is one area where
30 we feel that these management training or information

Ashton, Hinchey, MacLeod
Cross-Exam by Bayly

1 courses is very pertinent.

2 WITNESS ASHTON: I agree with
3 that, but also the inexperience of the manager himself,
4 the bank manager himself, causes this delay, because
5 he has to sell the loan to his Regional Office.

6 A lot of the questions arise because the bank manager
7 has not done his homework, rather than the manager of
8 the business.

9 Q I understand then. Would
10 you be prepared, then, to recommend that first of all
11 based on your wish that there be more experienced rather
12 than inexperienced managers sent to the north, that the
13 discretionary limit of lending be increased, and if so,
14 to what ceiling without outside advice?

15 WITNESS MACLEOD: I've discussed
16 this issue with bankers in the delta and apparently
17 similar limits are applicable to southern branches
18 also. In Inuvik the limits are \$5,000, and this is
19 not out of line with similar sized branches anywhere
20 in Southern Canada.

21 Q I take it the difference
22 may be that you can't count on the Calgary manager
23 appreciating all the problems or the conditions in
24 a centre like Inuvik, Hay River, or Yellowknife.

25 WITNESS ASHTON: Well, my feeling
26 is that it's the bank manager, the local bank manager
27 who has to sell this program to his Regional Office,
28 and if he is inexperienced, then it takes that much
29 longer to do this.

30 Q So the main holdup will

Ashton, Hinchey, MacLeod
Cross-Exam by Bayly

1 be with inexperienced managers. You'd like to see as a
2 first priority more experienced people in the banks.

3 A Yes, that and for a
4 longer period of time. If they were here for a longer
5 period of time I don't think the inexperience would
6 be that great a problem. But it's when you've got
7 the inexperience frequently that causes the problem.

8 WITNESS HINCHEY: They also
9 in that situation have a substantial turnover in their
10 management positions, we understand, on a national
11 basis too.

12 Q Now, Mr. Ashton, I notice
13 in your curriculum vitae that you were a member of the
14 Mackenzie Pipeline Business Opportunities Board.

15 WITNESS ASHTON: That's correct.

16 Q Now, can you tell us some-
17 thing about that Board and what its purposes have been
18 and what it has managed to accomplish?

19 THE COMMISSIONER: Well, I've
20 been told by Mr. Blair and Mr. Burrell on at least
21 two occasions all about the Board. I'd be interested
22 in knowing if you have a progress report to make, but
23 I'm not anxious to hear why the Board was set up and
24 so forth again, unless you are, and don't let me stop
25 you.

26 MR. BAYLY: Let me be more
27 particular, sir, so that we don't get an entire
28 history of the Board.

29 THE COMMISSIONER: The history
30 is a short one.

Ashton, Hinchey, MacLeod
Cross-Exam by Bayly

1 I know it.

2 A I think most of it can
3 be summed up just by, you know, its object is to
4 maximize northern business participation in the
5 development in the north, to take care of the
6 petroleum-related industry.

7 MR. BAYLY: Q And has the Board
8 restricted itself to businesses that are directly
9 related to pipeline activities?

10 A I wouldn't say directly,
11 no. I would say indirectly. We're not again going
12 to fur trappers and hair stylists and people like
13 that, it's basically a petroleum-related industry.

14 Q So you have not advanced
15 the Board into the area of commercial fishermen, reindeer
16 herders, and trappers, etc.

17 A No, although if the fisherman
18 had a boat they certainly might be included.

19 Q Yes. Would you agree
20 with me that the operations of businessmen who are
21 not directly related to servicing the pipeline or
22 oil and gas industry may nonetheless be affected in
23 their businesses by what happens?

24 A Oh yes, and we are also
25 looking out for those people as well.

26 Q Are they members of the
27 Board? Are their interests represented by people in
28 their business?

29 A Repeat that question,
30 please.

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Ashton, Hinchey, MacLeod
Cross-Exam by Bayly

1 Q Are those interests
2 the interests of people in the land-based businesses
3 represented on the Board? Are there fishermen on the
4 Board?
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Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

1 A We have had one member
2 from Inuvik. His name is Otto Binder. Now I am not
3 sure whether he is -- I don't thin he is a fisherman.
4 He is an Eskimo.

5 Q Yes. Have there been,
6 to your knowledge, trappers or --

7 A No.

8 Q --reindeer herders or --

9 A No.

10 Q No.

11 THE COMMISSIONER: Well I
12 missed something. The Business Opportunities Board is
13 to provide assistance to businesses -- presumably
14 small business really -- anxious to get started or to
15 expand in petroleum and pipeline related fields. I
16 must have missed a sentence in what you said. Why
17 would you be concerned about providing assistance to
18 people outside that range of activities?

19 A I don't know whether it
20 would be strictly interpreted as assistance although
21 the interest is anywhere in the business community --
22 any recommendations or things that we can do.

23 Q Oh, I see. Yes. Yes.

24 A -- must be of an
25 improvement to the total business community.

26 Q But the loans that you
27 might make or the grants would be confined to petroleum
28 and pipeline related industry?

29 A The which? The loans?

30 Q Yes.

Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

1 A We're not making any
2 loans sir.

3 Q Oh, I see. O.K.

4 A It is a communication
5 vehicle basically.

6 Q Pardon me?

7 A I say it's a communication
8 organization basically.

9 Q Well maybe I was wrong
10 when I said I know what it's about. I could have sworn
11 they told me it was to make loans but -- O.K. Sorry.

12 A Mind you if they were --

13 MR. BAYLY: Could I turn to
14 you Mr. Hinchey please. On page six of your evidence,
15 you make a recommendation in Roman numeral four. Your
16 recommendation is that prime contractors consult with
17 local suppliers in view of exceeding the latter's ability
18 to supply. The onus of the application being on the
19 local supplier. Are you advocating that the local
20 suppliers approach the prime contractors singly or would
21 advocate that they use some form of organization to go
22 to the prime contractors?

23 WITNESS HINCHEY: Well hopefully
24 the information regarding the supplies would all be
25 available through the Mackenzie Valley Businessman's
26 Association and that this information would be available
27 as to what supplies are required in his area. It would
28 be up to the individual businessman then to contact the
29 applicant if he feels he is in a position to provide
30 those supplies.

Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

1 Q One of the concerns that
2 I have heard expressed is that some of the businesses
3 in the Mackenzie Valley may be too small to participate
4 in supplying on their own. The applicant isn't going to
5 be interested in purchasing two trucks or --

6 A I think certainly you
7 are going to have the situation in some areas. I think
8 this has happened in Alaska where small businesses formed
9 together a consortium and undertake a joint bid on a
10 particular project, utilizing the combined physical
11 assests and fields of experience rather than having to
12 increase their own assests and investment for a short term
13 period.

14 Q Do you see the offices of
15 the Business Advisory Board as a facilitator for that
16 kind of arrangement between businessmen perhaps from
17 different communities?

18 A Yes, I think I see it as
19 an area where they could seek assistance and try and
20 get the groups together in the various areas and put
21 proposals to them on certain contracts that would be a
22 viable joint project for them to undertake.

23 Q Do you see any difficulties
24 in their doing that with regard to tendering on certain
25 jobs that they may be in a position of fixing their
26 tenders for example?

27 A Well, that could be a
28 possibility if nobody else is going to be tendering
29 on that particular project. It would depend on how the
30 tenders are let out. Presumably there would be enough

Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

1 tenders to avoid the concept of fixed pricing.

2 Q Now, you talk about the
3 regulatory function of the local Chamber of Commerce.
4 Could you tell me what sort of regulations you would have
5 in mind in their either facilitating or enforcing?

6 A I don't think it would be
7 a matter of them having any powers of regulating or
8 enforcing. It would be providing encouragement for
9 local firms to participate in endeavors. I don't think
10 that the Chamber can be in a position -- regulatory is
11 probably a poor word to use in that particular circumstance
12 because the one thing that we want to avoid is a lot
13 of organizations with regulations because they are going
14 to create more hurdles than they solve problems.

15 Q Now adequate supplies
16 will certainly be a concern of the applicant. They are
17 also a concern of the small communities that they will
18 not be in a position where their local supplier has sold
19 all or most of his goods or services to the pipeline
20 contractors or the applicant. Have you thought of the
21 Chamber of Commerce as some sort of an advisory board
22 with regard to ensuring that smaller communities continue
23 to get air service or that somebody picks up the mail
24 contract or whatever may be the service of concern?

25 A Certainly if there is a
26 Chamber in the local area, I think that they should
27 certainly encourage involvement. But if there is no
28 Chamber available in the local area, then I would look
29 to the Mackenzie Valley Businessman's Association to being
30 that body to encourage it and certainly to carry or

Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

1 disseminate information to the financial organizations
2 to make them more aware of why certain financial needs
3 are required in their respective areas.

4 Q We have been told by both
5 applicants that they certainly intend to ensure that the
6 communities continue to be supplied in priority to theirs,
7 the applicants, own needs. What I am concerned with is
8 how they will know that this will continue to happen,
9 especially if the local businesses see an opportunity
10 to do better than they would by supplying locally. Can
11 you envisage some sort of a regulatory system that
12 would ensure that the communities ^{will} continue to be supplied?

13 A Well, I think the
14 thing there is that you have to have sufficient lead
15 time to know what the requirements are within various
16 areas and what the time frame is going to be for the
17 supplies in that area and that if we don't have an
18 outline on that time frame, it's going to be very awkward
19 for the business community to plan its expansion to
20 accommodate the requirements.

21 Q Yes, Mr. Ashton You wanted
22 to add something.

23 WITNESS ASHTON: I think too
24 that the businessman who has been in business for a
25 time in the Northwest Territories is going to look after
26 his ongoing customer. You know, I think he should have
27 enough sense to do that even though, you know, a golden
28 opportunity is there. I think he can see that it is
29 only for a certain length of time in relation to supplies.
30

Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

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2 Q Well, I can appreciate
3 that for a wise businessman. We do hear occasionally
4 of complaints already in the Mackenzie Valley, that the
5 interests of some customers are being sacrificed to
6 those of others and so already we're getting this con-
7 cern with regard, for example, to certain charter
8 airlines and Mr. Hinchey, you referred to lead times
9 being sufficient, has either the Chamber or Commerce
10 or the Business Advisory Board looked into lead times
11 required by the local business community and have you
12 any recommendations to make with regard to that?

13 WITNESS HINCHEY: We haven't
14 -- no we haven't any recommendations to make in regards
15 to the lead time. It's a matter we've been waiting
16 to get -- obtain detailed lists of requirements of
17 the applicants, which of course we realize is very
18 awkward until the final plan is formulated and this
19 is one thing that has been discussed at a number of
20 meetings but we have not yet been able to come up
21 with a conclusion.

22 Q Now, with regard -- yes,
23 Mr. MacLeod.

24 WITNESS MacLEOD: In an
25 area served by barges, you have a semi-automatic lead
26 time built in because the period of resupply only
27 lasts about three months, so if you want something in
28 Inuvik next spring, you have to have your order in by
29 the end of August.

30 Q So?

Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

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2 A So, it's an imposed lead
3 time and shortfalls could be made up in the interim
4 by air freight.

5 Q That's the lead time you're
6 referring to with that form of transportation. I take
7 it, Mr. Hinchey, if I understand him correctly, is
8 referring to planning lead time in addition to the
9 logistical lead time, for businesses to gear up to
10 supplying both their regular customers and the new
11 customers they may have because of the pipeline activities.
12 Is that correct, Mr. Hinchey?

13 WITNESS HINCHEY: That is
14 correct.

15 WITNESS MacLEOD: Something
16 else you should remember too is that businessmen deal
17 among one another, so if a shortage develops in one
18 industry in Inuvik, which supplies other industries in
19 Inuvik, these issues come to the attention of the
20 Chamber of Commerce in their meetings and the guilty
21 business is usually shot down. It becomes quite an
22 issue.

23 Q Right.

24 A There is a forum there
25 to express grievance.

26 Q My experience has been
27 that when the Bay's out of oranges, Foreman's is usually
28 out of oranges too. So, sometimes there's too much of
29 a taxing on all the local businesses, I suggest to you,
30 if they don't have the sufficient planning time or the

Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

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2 details to allow them to enter into this plan, would
3 you agree with that?

4 A Yes, but there are off-
5 setting factors. Even if there's no planned lead time,
6 logistics impose some kind of a lead time.

7 Q I understand that, yes.

8 Now, you've mentioned the
9 problems of air charter transportation and you've made
10 certain recommendations with regard to air transport.
11 Would you recommend that the Ministry of Transport
12 be the body through whom we ensure that the smaller
13 communities continue to be supplied by air prior to
14 the needs of the pipeline applicant and his contractors?

15 WITNESS HINCHEY: Well,
16 regulations for air carriers are all administered by
17 the Ministry of Transport, and I would assume that
18 that's where the direction would have to come.

19 Q Yes, and would you
20 recommend that the --

21 A I think there has been
22 a -- and I don't know the details on this, but I think
23 there was a recent decision in Alaska where it required
24 that carriers, or private carriers in excess of a DC-3
25 were not permitted to carry freight over 40,000 pounds,
26 that they had to come through the commercial carriers.

27 Q All right, you see, you've
28 given evidence on page nine of your presentation that
29 50 percent of the aviation business in the delta is
30 carried out by unlicensed carriers.

Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

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A I think John can probably
comment on that.

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WITNESS MacLEOD: What clarification
would you like?

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Q Well, the buck was
passed before I got the question out. The concern
that I have is that even though the Ministry of Transport
may be administering regulations from the evidence that
Mr. Hinchey gave, there may be a large number of
carriers relied on by communities in the delta which
are carrying outside the jurisdiction or outside the
regulations, if you like, of the Ministry of Transport
at the present time.

A Well, as far as I know,
these carriers are operating legally.

Q Right.

A They are conforming to
regulations of the Ministry of Transport.

Q What do you mean by
unlicenced carriers then?

A That they are based
-- that their licence base is outside of the delta and
generally, that would mean outside of the Mackenzie
District altogether. You have Ontario based firms
doing a lot of charter work in the delta right now.

Q They are licenced to
do that work they just aren't Mackenzie Delta based.

A They aren't based in
the delta, their licenced base is elsewhere.

Hinchey, Ashton, MacLeod
In Chief

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Q So that the regulations
continue to apply to them?

A Yes.

Q Yes. Mr. Hinchey, on
page nine, you've made the recommendation that wage
control limits will have to be raised in the Northwest
Territories to allow the northern entrepreneur to remain
competitive during pipeline and gas plant construction.
And you also state that a major increase in hourly
rates will probably not be necessary due to overtime
that could be available on both pipeline and non-pipeline
sectors.

Now, have you considered what
might happen to the personnel needs of non-pipeline
related enterprise and essential services such as
hospitals and I don't mean their medical staff necessarily,
but they need other staff to operate.

WITNESS HINCHEY: As far as
the price and income controls are concerned?

Q Yes, are we likely to
see either people working too long hours to work safely
and properly, or shortages of personnel.

A Certainly there are
certain industries that you wouldn't want people putting
in unlimited hours or putting in 60 or 75 hours a week
because their performance is going to degenerate and
it's not going to be in the public interest.

Q Right, and the present
-- your feeling is that the situation may in part solve

Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

1
2 itself because present employees who remain with their
3 employers and do not transfer over to pipeline contractors
4 and take jobs in that sector, will get higher wages
5 because they will be working longer hours.

6 A Longer hours, this
7 was the feeling of a number of people in the retail
8 fields. Our concern, as far as price and income
9 control is related to firms that come under the Anti-
10 Inflation Board requirements are restricted to their
11 twenty-four hundred dollar a year increment, which might
12 not be a sufficient spread in relation to firms coming
13 in under the pipeline applicant.

14 Now, there's a large range
15 of businesses, which, in the Territories, which are
16 not restricted under the Anti Inflation Board controls,
17 but there's certainly certain construction firms would
18 be.

19 Q And --

20 WITNESS ASHTON: I just might
21 add that if the non-unionized personnel in the Northwest
22 Territories is required to become unionized to partici-
23 pate in the pipeline contracts, subcontracts, they
24 would then fall under the A.I.B. rulings.

25 Q Right. Now, this --

26 THE COMMISSIONER: They would
27 what?

28 A They would then come
29 under the Anti Inflation Board rulings and guidelines.
30 If they were -- if it was a collective bargaining, unionized

Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

procedure with their employer.

Q I thought that they
had to be of a certain size or --

A 20 or more in construction.

MR. BAYLY: I take it that
this accommodation of those employees to working the
longer hours to gain the higher wages involves, first
of all, people who, through a sense of loyalty or what-
ever, decide to stay with their employer, despite the
longer hours , in other words, they may have to --
in order to earn the same wages as the pipeline employee
they may have to work longer hours than he does?

Ashton, Hinchey, MacLeod²⁷³²⁶
Cross-Exam by Bayly

1 WITNESS HINCHEY: Yes.

2 Q And it also involves people
3 perhaps changing their lifestyles in order to keep
4 up with their next-door neighbors or their pipeline
5 contractor employee next-door neighbors?

6 A M-hm.

7 Q By working perhaps 12
8 instead of eight hours a day, whatever the numbers are.
9 Would you agree with that?

10 A Yes, the ones that are
11 usually working on the pipeline, of course, are going
12 to be out at the camps working on the line.

13 Q I understand, but you're
14 hoping that certain employees will stay with their--

15 A That's right.

16 Q -- present employers
17 and be attracted to the longer hours , therefore the
18 additional funds.

19 A Yes.

20 Q And I take it that you
21 would have to exclude from those possibilities people
22 whose present circumstances dictate that they only
23 work a certain number of days. I'm thinking of working
24 mothers or --

25 A There are going to be
26 preclusions, yes.

27 Q And with regard to what
28 it does to people's lives, that's not what you've
29 looked at. You've just looked at the economic question.

30 A Yes, the economic end

Ashton, Hinchey, MacLeod
Cross-Exam by Bayly

1 of it. Mind you, we find quite a number of situations
2 at the present where people are presently holding down
3 two jobs.

4 Q Yes, I understand that.
5 You would expect there to be more of those people in
6 the pipeline construction situation.

7 A Yes, and there will be
8 more people coming into the local work force too,
9 which will probably become involved in the retail
10 or in the work environment within the community.

11 Q Yes, and this has been
12 the experience in Alaska, as I understand it, that
13 people are working more double shifts so this is not
14 something that is unknown to the pipeline building
15 phenomenon.

16 A No.

17 Q We've also heard that
18 it has affects on the way people perceive the
19 quality of their lives but that is not what you have
20 concentrated on in your evidence.

21 THE COMMISSIONER: No. These
22 people, these three gentlemen had a very specific
23 function which they sought to carry out, and I am not
24 interested in their views on social impact. They are
25 concerned as citizens of the north about social impact
26 but we have heard a lot of evidence on that, and I
27 don't think that we should tax these gentlemen on that
28 subject. Mr. MacLeod said earlier that he didn't want us
29 to think he was interested only in the impact on
30 business. Well, we know that he's interested in a broad

Ashton, Hinchey, MacLeod
Cross-Exam by Bayly

1 range of impacts, but he's an expert on the impact
2 on business, and these other gentlemen are, and that's
3 why they're here.

4 MR. BAYLY: Mr. Commissioner,
5 I'm only trying to limit it to that, but I just want
6 to make sure that it is limited to that, as I understand
7 it.

8 THE COMMISSIONER: Why, of course
9 it is, and --

10 MR. BAYLY: Just one more thing
11 on this.

12 Q Are you reasonably
13 confident that there will be enough people either
14 as recruits coming in, or those present employees who
15 are working on the schedules that they are presently
16 on that will want to continue to work longer hours?

17 WITNESS HINCHEY: I don't feel
18 we're in a position to say, you know, give an affirma-
19 tive answer to that. Certainly we talked to quite
20 a number of people who are interested in it.

21 But as a ratio to the
22 total working force, we're not in a position to give
23 you an answer in on that.

24 Q Because there are two
25 possibilities: (1) that people will in large numbers
26 take to this and say, "Yes, I will work the extra
27 hours." Other people may say, "No, I don't want to.
28 I'll either move or you'll have to leave me on my
29 present hourly schedule."

30 You have no way of predicting

Ashton, Hinchey, MacLeod
Cross-Exam by Bayly

1 the numbers that will respond one way or the other.

2 A No, we are not in a
3 position to give you that answer.

4 WITNESS MACLEOD: I don't see
5 why anyone would be expected to leave his present
6 employment because he won't work overtime. Nobody
7 will be forced to work overtime, according to the
8 existing Territorial labor ordinance.

9 Q I realize that.

10 WITNESS ASHTON: The problem
11 really exists right now even competing with government
12 bodies, private enterprise generally speaking does not
13 pay quite as much for a lot of particularly clerical
14 duties than governments do, and large corporations
15 do. So we are faced with a problem to a certain degree
16 right now. There are people, fortunately, who prefer
17 to work for us.

18 MR. BAYLY:
19 Yes, we have the same
20 problems hiring secretaries.

21 MR. SCOTT: I think coffee
22 is ready, sir. Would this be an appropriate time
23 for Mr. Bayly to collect himself?

24 MR. BAYLY: It's the questions
25 I'm trying to collect.

26 MR. SCOTT: That's what I meant.

27 MR. BAYLY: I'd be happy with
28 that, yes. I've got one or two more questions after
29 coffee, sir, and I'm not quite sure what to whittle
30 out.

THE COMMISSIONER: We'll take a break.

(PROCEEDINGS ADJOURNED FOR A FEW MINUTES)

Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

(PROCEEDINGS RESUMED PURSUANT TO ADJOURNMENT)

THE COMMISSIONER: Let's

begin again and Mr. Bayly can carry on with his questions.

MR. BAYLY: I just have two
more areas Mr. Commissioner.

Mr. Hinchey, on page 13 you
recommend that a single Mackenzie Valley pipeline
authority be formed and you go into the reasons. You
also recommend that this body have both policy and
policing functions with the authority to shut down the
operation or modify procedures. Now, with regard to the
area in which you have come to give evidence, how do you
see the authority policing or shutting down? Does this
have anything to do with northern business or is this
a recommendation with regard to the applicant and its
contractors?

WITNESS HINCHEY: It would
apply to firms that are undertaking work and are just not
performing their task as required under their particular
contract. The infractions might be numerous but certainly
there has to be one body overseeing this. It might an
arm of that particular body that maintains the regulatory
functions such as the engineering aspects which are
overviewed by the Mechanics Research Incorporated on
the Alyeska line. The feeling here is if there is no
control exercised in that area, it jeopardizes the
performance of other contractors following in line and
completing their phases of the work.

Q Could you see them operating
in the bonding area as well and setting or enforcing

Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

regualtions about bonding?

A Well certainly they would probably be the ones that would be either over-seeing it or the pipeline applicant overseeing it in situations where no bonding has been required but the contract is set up to permit the overseeing of the work. If they are not performing accordingly, then they would be relieved of their particular task that they have undertaken and another organization put in to fulfill that aspect of it.

Q Now, you've proposed a single organization and there has been some debate at this Inquiry and elsewhere as to whether it should be a single or a multiple agency enforcement?

A Well our -- yes, our concern in there was that as we understand it initially in Alaska there was a tremendous lack of communication between organizations whether it be business, labor or communities and we feel that there has to be one organization in there that can pull this together and keep it on line so there isn't this wasted time and increased cost because if you're dealing with small organizations fulfilling parts of the contracts, it doesn't take very much time delay before the costs will make his contract bid a loss operation. Small businesses cannot be in a position to carry this kind of thing.

Q Do you see that it would exercise, I think you said in answer to one of my earlier questions that it might have a branch or an arm of its agency in charge of certain aspects. Would you

Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

1 see it as a multi-faceted agency then?

2 A Well certainly there is
3 going to be specialized areas that are going to have to
4 have people involved in those particular areas that are
5 fully familiar with that aspect of the operation and
6 what is required in it. It would be probably very
7 difficult to have a generalized board.

8 Q Did you see anything
9 in Alaska or have you given thought to what form you
10 would like to see this agency take?

11 A The structure of the
12 agency -- we didn't review in depth the structure of the
13 agency. We were concerned that its size be maintained
14 at a level which makes it very operable and not too
15 cumbersome.

16 THE COMMISSIONER: Well you
17 essentially Mr. Hinchey are saying that the government
18 agency to regulate the construction of the pipeline
19 should be a single agency to avoid a multiplicity of
20 departments and agencies giving overlapping and conflicting
21 directions to the contractors and subcontractors --

22 A That is correct.

23 Q -- and everybody else.
24 You say that it should be located in the north at
25 Simpson or Norman Wells and that it should self-destruct
26 when the project is over.

27 A That is correct.

28 MR. BAYLY: Now, you've
29 given us an idea about the headquarters and the adequate
30 funding and the aircraft support. Have you thought of

Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

1 whether this should be , in your opinion, not only
2 based but governed from within the Northwest Territories?

3 A We feel it should be
4 within the Northwest Territories.

5 Q As opposed to a federal
6 agency?

7 A Yes.

8 Q So, should it be answerable
9 to the Territorial Government in your opinion or to the
10 Federal Government or to neither of those?

11 THE COMMISSIONER: Well if
12 it's answerable to the Territorial Government --

13 A It's answerable to the
14 Federal.

15 Q --there will have been a
16 great change in the affairs of the north between
17 now and then.

18 A I think, you know, your
19 present government structure probably wouldn't permit
20 that.

21 MR. BAYLY: So your main
22 concern though is that its entire organization be
23 based in the Northwest Territories.

24 A In the Northwest Territories.

25 Q Yes and that would include
26 its director, not just the people who carried out the
27 functions on the actual pipeline.

28 A That is correct.

29 Q Now, on page 16, under
30 "conclusions", you refer us to the 1972 March 28th

Hinchey, Ashton, MacLeod
Cross-Exam by Bayly

1 statement on northern development in the '70's which
2 calls for a higher standard of living, quality of life
3 and equality of opportunity for northern residents and
4 for viable economic development within the regions of the
5 Northwest Territories. Are you satisfied as the Chamber
6 of Commerce that the proposed Mackenzie Valley pipeline
7 fulfills these requirements or criteria set out in these
8 1972 guidelines?

9 A I think you are getting us
10 involved in the social aspect of it again John and We've
11 looked at this as a business economic involvement.

12 Q All right so with regard
13 to that statement we should really say that you have
14 only addressed yourself to the one portion even though
15 you have quoted more than one portion of it in your --

16 A Yes.

17 THE COMMISSIONER: Well that
18 depends. The answer to that question surely depends on
19 the findings of this Inquiry, the determination made
20 by the Energy Board, the form of the project and the
21 way it is proposed to carry it out at that time.

22 Asking these gentlemen to
23 comment at large so to speak is not going to be helpful
24 to me.

25 MR. BAYLY: No, Mr. Commissioner,
26 the evidence is before us and I don't like to leave it
27 alone in case there is something that these gentlemen
28 want to share with us. If there isn't, I am content
29 with that.

30 I have no further questions of

Hinchey, Ashton, MacLeod
Cross-Exam by Bayly
Cross-Exam by Roland

1 this panel. Thank you very much sir.

2 MR. ROLAND: Yes sir. I have
3 just a few questions.

4 CROSS-EXAMINATION BY MR. ROLAND:

5 Q I take it you recognize --
6 and I direct this to any of the panel members -- perhaps
7 Mr. Hinchey would be the best person to answer this
8 question. But I take it you recognize that there are
9 a lot of small businesses in the north that will not
10 be involved directly with pipeline activity either because
11 of the kinds of things they do or because of the nature
12 of their business and the size of their business and
13 that they will be facing the disadvantages of this kind
14 of rapid development in terms of retaining employees
15 and competing for wages.

16 I wonder if you had thought
17 about ways to protect those businesses who can't pass
18 on these higher costs through pipeline contracts.
19 For instance, have you thought about indexing salaries
20 according to inflation? Or have you thought about simply
21 subsidizing smaller businesses during this period or
22 any other ways to meet this problem?

23

24

25

26

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Hinchey, Ashton, MacLeod

Cross-Exam by Roland

1
2 WITNESS MacLEOD: We haven't
3 considered subsidizing these kinds of businesses.

4 Q Yes.

5 A I don't think it's going
6 to be necessary either to index salaries, because
7 this is going to take place automatically I think, by
8 means of market forces.

9 Q Well --

10 A We have said throughout
11 the report that local businesses will increase their
12 wages to maintain a work force.

13 Q But, are you saying then --

14 THE COMMISSIONER: It's not the
15 employees who will be in trouble, it's the businesses.

16 A The and
17 usually people who occupy these positions which pay
18 very low salaries are also the least skilled people.
19 And for that reason they're less mobile than the more
20 skilled and therefore more likely to retain their
21 present employment.

22 MR. ROLAND: All right,
23 turning to the problem of transportation, recognizing
24 that there may be a problem in competing for barge
25 space, especially at peak supply periods, have you
26 thought about non-pipeline customers in the north having
27 some priority over barge space and do you have a position
28 on that?

29 A We have considered that
30 and we think that priority should be given to existing

Hinchey, Ashton, MacLeod
Cross-Exam by Roland

1
2 traffic and a certain portion of the barge capacity
3 should be reserved for local requirements.

4 Q What about the
5 subsidization of freight cost, which is one of the
6 recommendations in the report of the task force for
7 northern businessmen obtaining federal contracts? What
8 your position on their third recommendation, which is
9 that freight costs be subsidized by the federal govern-
10 ment on all commodities?

11 A Speaking personally,
12 I'd say I'm opposed to subsidization.

13 Q Why is that?

14 A It's inefficient. I
15 think that prices could be brought down by increasing
16 the volume of traffic, by expanding the scale of
17 operations.

18 Q Well, two basic problems
19 that we've been talking about today have to do with
20 protecting the northern businessman from himself, that
21 is from over-expanding his business so that he finds
22 himself in a difficult position after the peak construc-
23 tion period and as I understand your answer to that
24 problem is that you leave it essentially to the business-
25 man and to the market and to the moral persuasion of
26 his fellow businessman, is that the way I understand
27 you?

28 A Well, I don't know if
29 I've said that today, but I have expressed that opinion
30 on previous occasions. One of the qualities of a good

1 businessman is his ability to adapt to changing economic
2 conditions and I don't think he requires protection
3 from himself. If you're in business, you're there to
4 take risks, you have to be prepared to carry the losses
5 or reap the benefits.

6
7 Q Well, I take it you
8 recognize that the consequences of his taking those
9 risks and over-extending himself, flow to his employees
10 and to people with whom he contracts who may not
11 be paid for their goods and services supplied to them,
12 if he goes bankrupt for instance. Do you recognize
13 that the ramifications of him over-extending himself
14 go beyond that individual businessman?

15 A If he over-expands it's
16 because he has excess capacity, if he has excess
17 capacity, I don't see why he cannot serve his clients
18 which are less numerous than he had envisaged.

19 Q In any event, I take
20 it you wouldn't put any control on that businessman
21 and how much he could expand during a peak period?

22 A No, I wouldn't. On
23 the other hand though, I would not encourage him to
24 expand. I would not create false expectations.

25 Q And the second
26 element in this is that is protecting that businessman's
27 non-pipeline customers, customers that he would have
28 before pipeline construction began and the protection
29 there would be from the businessman shifting his
30 activities away from his other customers to pipeline
activities and do you see any restrictions that should

Hinchey, Ashton, MacLeod
Cross-Exam by Roland

1
2 be placed or any regulations that should be introduced
3 to prevent the non-pipeline customers from not being
4 supplied?

5 A I don't really see
6 how you could regulate that. I think a wise businessman
7 would recognize the construction period would be short.
8 I don't think he would sacrifice his long term customers
9 for a short term business opportunity.

10 Q Well, you recognize that
11 may be a problem though, I take it?

12 A It could be a problem
13 though.

14 Q Yes. YOu have no idea
15 on how, though, to approach that problem other than
16 simply leave it to the market forces again? Is that
17 what you're telling me?

18 A Well, I'd leave it to
19 market forces.

20 Q In turning to bonding,
21 if bonding is made generally available to
22 local business, what limits would be appropriate
23 to set on providing that bonding, what if any limits
24 and how do you gauge those limits?

25 A Well, we're trying to
26 avoid bonding altogether on the pipeline project because
27 it's so difficult to obtain in the first place. We
28 have received several suggestions that the successful
29 pipeline applicant supply the bonding, but that defeats
30 its purpose, so just drop it altogether.

Hinchey, Ashton, MacLeod
Cross-Exam by Roland

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Q So, you wouldn't -- in the situation though, of bonding, would you put some limit on that?

WITNESS ASHTON: Dollar value?

Q You see --
A It would have to be analyzed, each individual case would have to be analyzed on its own merits I think.

Q I see, and what are the factors that you analyze in those cases?

A Well, the financial strength, liquidity position of that company, track record, earning capability; financial statement analysis.

Q Would you take into consideration as well, what would appear to be a shifting of business from non-pipeline customers to pipeline activities?

WITNESS MacLEOD: It wouldn't be the Chamber of Commerce or any member of this panel to make such a decision that would be the surety companies.

Q Yes, should that be something they should look at?

A Well they would look at it. Well, they would -- if this shift indicated a change in the stability of the clientele, they would look at it.

WITNESS ASHTON: They would

Hinchey, Ashton, MacLeod
Cross-Exam by Roland

1
2 look at the results of such a transfer.

3 Q Now, in dealing with
4 the concept of a bid differential that you've discussed,
5 I take that's simply to create fair competition between
6 a northern businessman and southern businessmen?

7 A Yes.

8 Q And I take it you prefer
9 that bid differential to some subsidization scheme
10 that subsidizes the northern businessman?

11 A It does to some extent,
12 yes.

13 Q Well --

14 THE COMMISSIONER: It is a
15 subsidy, isn't it?

16 A It's a subsidy, the
17 idea --

18 THE COMMISSIONER: It's a
19 subsidy by a private company.

20 MR. ROLAND: Yes, I'm talking
21 about federal government or some governmental subsidy,
22 I'm sorry.

23 WITNESS MacLEOD:

24 A Yes, well what -- the
25 problem here is that you find in the delta there are
26 many businesses which only live, which really depend
27 upon three or four months of work per year, but they
28 stay in operation for the entire 12 months. Whereas,
29 at the same time you'll have outside firms which come
30 in and reside in the area, if you wish, just for those
three or four months then they take off immediately.

Hinchey, Ashton, MacLeod
Cross-Exam by Roland

1

2

Q M-hm.

3

A While in the other eight

4

months of the year, the local business is incurring

5

very high overhead and this bid differential would

6

compensate for staying around those extra eight months

7

and offering services on a limited scale, possibly on

8

an unprofitable basis to the local population.

9

Q Yes, I understand that,

10

but you prefer this bid differential scheme to a federal

11

government or some governmental subsidization scheme?

12

A Yes.

13

Q Yes.

14

A Because I'm also hoping

15

that this bid differential could be phased out eventually.

16

Q Well, that was my next

17

question. How -- do you apply it across the board to

18

all contracts in the north, federal government, all

19

private contracts as well as pipeline related contracts?

20

A Well --

21

THE COMMISSIONER: The Federal

22

government's agreed to a 10 percent preference regarding

23

certain departments.

24

A Yes, and this is also

25

used by the town of Inuvik.

26

MR. ROLAND: Yes.

27

A But I have recommended

28

there a scale bid differential.

29

30

Ashton, Hinchey, MacLeod
Cross-Exam by Roland

1 Q Well, would you see
2 that applying to everone in the north?

3 A Well, it would be
4 scaled, it would be much lower in Hay River than
5 in INuvik.

6 Q I understand that, but
7 I'm talking about some private concern, some private
8 construction project that wasn't a government and
9 wasn't a pipeline project. Would you require a differ-
10 ential there as well?

11 A Well, in this study we
12 haven't really addressed ourselves to any other
13 developments other than hydrocarbon.

14 Q Now you also said you'd
15 like to see it phased out.

16 A Yes.

17 Q I take it that would be
18 rather difficult to do, at least in the short term.

19 A In the short term, yes,
20 but what has happened is that, O.K., if you're operating
21 a business in Inuvik and you require stationery
22 supplies, you have two choices, you can go to a local
23 business or you can order directly from Edmonton.

24 Now, when the local business
25 was established, obviously his level of -- his volume
26 of business was very low, so his costs per unit were
27 very high, so people in Inuvik at that time made
28 a price comparison. They would note that the Inuvik
29 prices may be 50% higher than that in Edmonton, so
30 they would go directly to Edmonton and buy locally only

Ashton, Hinchey, MacLeod
Cross-Exam by Roland

1 what they needed very urgently. So this situation has
2 evolved over the years so that the local retailer in
3 particular has prices which are much higher than in the
4 south. We recommend here that the successful pipeline
5 applicant purchase locally, force him into purchasing
6 locally. The effect of this would be to increase the
7 volume of sales at the local outlets, and therefore
8 bring the per unit costs down, and eventually bring
9 back that local business to him. People, the
10 local residents right now are buying in the south. As
11 they see the prices falling off in Inuvik they'll
12 start resupplying in Inuvik and this effect could be
13 sustained over the long run and eliminate the need for
14 the differential.

15 Q You don't see it
16 happening the other way, that the northern businessmen
17 relies upon and in the future continues to rely upon
18 that differential for the successful conduct of his
19 business.

20 A No.

21 Q It seems to me that that
22 would be a danger.

23 A It is a danger, but I
24 think we have a recommendation in the report to counter-
25 act that possible effect.

26 Q You've also talked about
27 easy access to working capital and inventory finance,
28 and I'd like to know what limitations you see should
29 be placed upon that easy access, what are the other
30 limitations?

Ashton, Hinchey, MacLeod
Cross-Exam by Roland

1 A The point there is that if
2 you have a viable project to finance, the finance can
3 be readily obtained, in general . I don't see any
4 limitations you can place on it. The limitations are
5 determined by the qualities, the economic qualities
6 of the project to be financed.

7 Q O.K., Mr. Hinchey, there's
8 one thing I don't quite understand. Maybe you could
9 explain it to me, how your recommendation with
10 respect to tenders that should be F.O.B. place of
11 use. Could you explain the background behind that
12 recommendation? I don't understand it.

13 WITNESS HINCHEY: Well, we've
14 found that tenders have been accepted on prices of
15 material based in Edmonton rather than based in
16 Yellowknife, or in another area in the Territories,
17 and consequently their bid has been taken, it being
18 that the only difference was the difference in freight
19 costs.

20 Q Well, if you have the
21 bid differential, doesn't that make up the differ-
22 ence?

23 A If your bid differential
24 was in there, it would certainly accommodate that
25 situation.

26 Q Yes. What does this add
27 to the cost of the differential, if anything?

28 WITNESS MACLEOD: Remember this
29 bid differential is over and above the transportation
30 cost.

Ashton, Hinchey, MacLeod
Cross-Exam by Roland

1 Q I take it that when it's
2 purchased at Edmonton that the calculation is still
3 made for the cost of transporting those materials to
4 their place of use.

5 WITNESS HINCHEY: The bid
6 differential, though, is not made to accommodate the freight
7 cost, it's made to accommodate the difference
8 in operating costs for the entrepreneur who is based
9 in a northern jurisdiction and operating 12 months of
10 the year.

11 Q No, but a purchaser who
12 wants to, for instance, use something in Inuvik, I
13 take it in tendering, would look at the price that
14 was offered by the vendor in Edmonton and would look
15 at the price offered by the vendor in Inuvik and would
16 see a difference; and the difference -- one of the
17 differences would be the transportation cost from
18 Edmonton to Inuvik, and he would calculate that on
19 top of the Edmonton price, and then make his
20 assessment.

21 WITNESS MACLEOD:

22 A Yes, which he preferred.

23 Q Well, how does F.O.B.
24 place of use
25 'assist' the northern businessman when any purchaser
26 would normally go through that calculation, in any
27 event?

28 A Because a northern
29 businessman doesn't always go through that calculation.
30 Quite often transportation costs are ignored.

Q Oh, I see, so that's just
to bring the transportation costs to the mind of the

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Cross-Exam by Roland

1 northern purchaser.

2 A Yes.

3 Q Thank you. Now in terms
4 of lead time -- and I think, Mr. Hinchey, you talked
5 about lead time -- recommendation, paragraph 24 in
6 the Task Force for Northern Businessmen Obtaining
7 Federal Contracts, specifies specific lead times for
8 tendering. Would you agree with those lead times?
9 Or what would you say about those?

10 WITNESS HINCHEY: Which page?

11 Q Paragraph 24, page 19.

12 A We did not determine the
13 viability of the lead times referred to in the Task
14 Force, and nor did we discuss the extent and formulate
15 any lead times with the people that we interviewed.

16 Q Well, would you find
17 those lead times personally too restrictive or appropri-
18 ate, or more than necessary?

19 WITNESS ASHTON: Just a point.
20 That's lead times where only northern businessmen are
21 bidding on the tender, which I think makes a difference.

22 Q What's the difference?

23 A Because they're all
24 competing on the same basis.

25 Q I see. Would you have
26 greater lead times if they were --

27 A Yes.

28 Q -- southern businessmen
29 competing?

30 A Major construction projects,

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1 42 days would be a normal lead time, I would think;
2 in Inuvik it may be far too little time.

3 Q sorry?

4 A I say in Inuvik I think
5 it would be far too little time.

6 Q That is 42 days would be
7 too little?

8 A Yes.

9 Q What would be appropriate?

10 A Well, as John mentioned
11 earlier, I think it varies depending on what type of
12 project it is. Some of the lead times required maybe
13 nine months.

14 Q Well, how so you propose
15 that for instance if recommendations are to be made
16 about lead time, that a time be determined, an approp-
17 riate time frame be determined?

18 It seems to me it's not
19 necessary to simply say, "Well, you need a lot of
20 lead time."

21 A Well, one thing for
22 sure is that the existing lead time is insufficient
23 because when I was doing this survey I'd come across
24 businessmen in the settlements who were looking for
25 contracts, so the next day I'd be going back to Inuvik
26 and I'd learn about some government contract which would
27 be coming up for bid. I wouldn't have enough time to
28 get those tender documents off on a sched into the
29 settlement and have them returned to Inuvik by the
30 deadline.

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1 Q Well, how do we determine
2 the lead time?

3 A Well, I was going to
4 say quite often these lead times would be determined
5 by trial and error, unfortunately, but I think as
6 much time as possible, whatever the -- whoever is
7 letting the contract thinks to enable the northern
8 businessmen to tender on the -- bid on the tender.
9 I think quite frequently it would be in excess of
10 three months.

11 WITNESS MACLEOD: And if it's
12 a major project to be performed in the delta, which
13 would require the barging in of a lot of materials,
14 I think that should be taken into consideration too,
15 that the materials have to be ordered and placed on
16 the barge by the end of August.

17 Q What does that mean in
18 terms of time?

19 A Well, that construction
20 work might not start until December, so you're looking
21 at three months at least, at least, you also need
22 time to prepare the order before it gets to the barge
23 at the end of August.

24 THE COMMISSIONER: So four or
25 five months wouldn't be out of line.

26 A Yes.

27 MR. ROLAND: Q Would you say
28 that't the outside limit necessary, four or five
29 months?

30 A I think so.

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1 But there is another problem too that came up in the
2 survey, is that all of a sudden many northern operators
3 might want heavy equipment and this might be difficult
4 to obtain because of the limited capacity of the
5 southern manufacturers to produce this equipment.
6 This has occurred already in Southern Canada in the
7 last couple of years.

8 Q Or the competition with
9 other purchasers in Southern Canada for that equipment.

10 A There was a time a couple
11 of years ago when everyone wanted to buy a gravel
12 box, and there was a long delay in obtaining them
13 because of restricted manufacturing capabilities in
14 the south.

15 Q That leads me to a
16 question that I have, Mr. Hinchey, that occurred
17 to me from the paragraph at the bottom of page 2 of
18 your presentation where you indicate that some
19 municipalities when tendering contracts purchase
20 their materials for use by the contractor, and my
21 question there is: Would that be in these kinds
22 of cases where it's difficult to obtain some materials,
23 would that be an appropriate way of proceeding with
24 respect to pipeline construction as well? That is the
25 pipeline company purchasing the materials and the
26 northern businessman contracting these services?

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1 WITNESS HINCHEY: Yes. I
2 already answered yes to that question previously.

3 Q I see and would you see
4 it for instance as well with operating equipment where,
5 for instance, the equipment would be leased back to the
6 northern businessman rather than purchased by him?

7 A That could certainly apply on
8 specialized areas of equipment where you are only looking
9 for its utilization over the period of construction.

10 Q O.K. Mr. Hinchey, sticking
11 with you for a moment, could you explain to me how the
12 bid depository works? What is it first of all? Who
13 operates it?

14 A Well bid depositories
15 generally in the southern jurisdictions have been formed
16 by the Construction Association and it is a central
17 hearing house for all construction jobs coming up for
18 bids and they have set procedures on timing and handling
19 and how the submissions must be made with the bids.
20 We at this time are going to take a look at the Yukon bid
21 depository system because we understand it works on a
22 different concept than the southern jurisdiction. But
23 our main concern here was to have all the bids flowing
24 through a central area so the information was readily
25 available.

26 Q Who would control that
27 bid depository? Would be the Mackenzie --

28 A It would be the Mackenzie
29 Valley Businessman's Association and it could be an arm
30 or a division of that particular function. We would look

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1 to it as being a continuing entity after pipeline opera-
2 tion is over.

3 Q Who controls it in the
4 south?

5 A It's usually an organization
6 set up by the Contractor's Association.

7 Q Would you require all
8 contracts to flow through that bid depository?

9 A Yes and that all contracts
10 be closed within that bid depository.

11 Q Where would it be located?

12 A The base would located
13 in Yellowknife. They could have the regional offices
14 as information centers within other communities within
15 the Mackenzie Valley.

16 Q O.K. Dealing with the
17 Mackenzie District Business Association proposal, does
18 that proposal envisage that all northern businesses be
19 registered with the Association as a requirement?

20 A It wouldn't be mandatory.
21 It would be a voluntary situation. Certainly to the
22 business operator's advantage to have on record a list
23 of his facilities and capabilities that he is prepared
24 to offer in his area of operation and act as an informa-
25 tion center to other organizations requiring specialized
26 fields.

27 Q Mr. MacLeod, on page eight
28 of your presentation, you talk about vocational training
29 and specifically apprenticeship programs. I take it
30 there what you are saying is that the northern businessman

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1 recognizes his obligation and is committed to training
2 apprentices on the job and working through an apprentice-
3 ship program and that commitment leads to your recommenda-
4 tion that the program be made more flexible so that
5 it can be better carried out.

6 WITNESS MacLEOD: Yes.

7 Q Is that commitment re-
8 cognized not only for pipeline activities but for other
9 activities in the north?

10 A Yes.

11 Q Is it the same with on-the-
12 job training? Is that what your recommendation really
13 come down to, a recognition of that commitment and that
14 again it should be more flexible?

15 A Well local business
16 recognizes the severe shortage of skilled labor and
17 local business also prefers to hire locally. So it is
18 in their own best interest to be involved in apprentice-
19 ship programs. An apprenticeship program also involves
20 on-the-job training.

21 Q Yes. O.K.

22 A I understand a new
23 revised Territorial Apprenticeship Ordinance will be
24 presented to the next session of Council and they should
25 be more flexible.

26 MR. ROLAND: Thank you. Those
27 are all the questions I have.

28 THE COMMISSIONER: Any re-
29 examination Mr. Searle?

30 MR. SEARLE: No sir.

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1 THE COMMISSIONER: Well thank
2 you very much Mr. Hinchey and Mr. Ashton and Mr. MacLeod.
3 Your presentation has been most helpful to me if I may
4 say so. I presume this is your third and final appearance
5 of the Inquiry Mr. MacLeod and I want to say how grateful
6 I am to you for the presentations you have made on each
7 occasion. They have been most interesting and most
8 helpful and I certainly appreciate it.

9 So this panel is excused then.

10 (WITNESSES ASIDE)

11 THE COMMISSIONER: What's
12 the next order of business?

13 MR. SCOTT: The next order of
14 business is a panel of Mr. Bayly's which I understand will
15 be ready first thing in the morning Mr. Commissioner.

16 THE COMMISSIONER: Now, I
17 heard that tomorrow was going to be a short day? Mr.
18 Bayly is calling evidence and cannot therefore cross-
19 examine.

20 MR. SCOTT: Well I haven't
21 thought of looking at it that way but having looked at
22 it that way, the answer is yes sir.

23 THE COMMISSIONER: Well may I
24 make a suggestion? Why don't we begin at 10:30 a.m.?
25 Will that be all right?

26 MR. SCOTT: That will be fine sir.

27 THE COMMISSIONER: O.K. We will
28 adjourn till 10:30 in the morning.

29 Excuse me. One thing Mr. Scott.
30 The evidence of this panel regarding the 15% scaled down --

1 the closer you get to the 60th parallel. The 15%
2 preference on bidding to northern business and the
3 proposals made regarding unionization -- would you send
4 those along to the Pipeline Council which I understand
5 will be giving evidence in early September. That's a
6 group that represents the pipeline contractors and the
7 Teamsters, the Laborers and the other construction unions
8 so that they can comment on those matters.

9 Mr. Searle, at that time, if
10 you decide to attend and you decide to cross-examine
11 the Council and the members on these matters, you are
12 certainly welcome to do so.

13 So we will adjourn till 10:30.

14 MR. SCOTT: Just so Mr. Searle
15 will know, the Pipeline Advisory Council will be giving
16 evidence on September 7th which is the first day following
17 the Labor Day holiday.

18 (PROCEEDINGS ADJOURNED TO AUGUST 24, 1976)

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